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BOOK REVIEWS

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The Robber Baron Concept In American History

The most vehement and persistent controversy in business history has been that waged by the critics and defenders of the "robber baron" concept of the American businessman. Far from being a pedantic exercise, this controversy has at various times exerted a decisive influence on business itself. The origins, spread, and obsolescence of the concept are traced here, together with the merits and failings of currently predominant historical attitudes.

Widespread in American historical writing is the idea that business leaders in the United States from about 1865 to 1900 were, on the whole, a set of avaricious rascals who habitually cheated and robbed investors and consumers, corrupted government, fought ruthlessly among themselves, and in general carried on predatory activities comparable to those of the robber barons of medieval Europe. Such at any rate appears to be the content of the idea when put into plain language. As actually used by historians, the concept tends to become more suggestive than precise. In this study it will be referred to as the idea of the robber barons, and an effort will be made to trace the broad outlines of its historical development after the Civil War, to point out historical interpretations at variance with it, and to appraise its value for present-day historians.

In the post-Civil War era, some relatively early expressions of the idea of the robber barons can be found. In 1869 E. L. Godkin in *The Nation* denounced Cornelius Vanderbilt's extortionate ways and called the Commodore "a lineal successor of the mediaeval baron that we read about. . . ."[1] In the early seventies the Grangers adopted resolutions comparing American railroad corpo-

[1] "The Vanderbilt Memorial," *The Nation*, Vol. IX (Nov. 18, 1869), pp. 431–432; quoted in Edward C. Kirkland, *Business in the Gilded Age: The Conservatives' Balance Sheet* (Madison, Wisconsin, 1952), p. 37.

rations to oppressive "feudal barons of the Middle Ages."[2] In the eighties and nineties cries of robbery came from Greenbackers and Populists. Matthew Josephson states that he drew the title of his book *The Robber Barons* from "the folklore of the Kansas Greenbackers and Populists of the 1880's."[3]

With the publication in 1894 of Henry Demarest Lloyd's *Wealth against Commonwealth*, the idea of the robber barons gained new importance for American intellectuals. Lloyd, an independently wealthy journalist, was an Emersonian religious thinker and a social reformer who almost but never quite joined the Socialist party.[4] The impassioned rhetoric of his book was aimed not only at the Standard Oil monopoly but at an even bigger target – business, the capitalistic system as it then existed. "Business," he wrote, "colors the modern world as war reddened the ancient world." And, anticipating somewhat a later theme of Thorstein Veblen, he declared that if civilization was destroyed it would not be by Macaulay's "barbarians from below" but by "barbarians . . . from above," the "great money-makers" who now exercised "power kings do not know." Among these moneyed barbarians were the rulers of Standard Oil. The record of the Standard corporation, which Lloyd set forth in detail, illustrated his thesis that "Monopoly is Business at the end of its journey."[5]

Allan Nevins has called *Wealth against Commonwealth* propaganda rather than history; Chester M. Destler has defended the book as essentially accurate, and the most recent study of the rise of the Standard monopoly supports Nevins' judgment.[6] But if

[2] Charles Francis Adams, Jr., *Railroads: Their Origin and Problems* (New York, 1893), pp. 128–129.

[3] Allan Nevins and Matthew Josephson, "Should American History Be Rewritten?" *The Saturday Review*, Vol. XXXVII (Feb. 6, 1954), p. 10. H. D. Lloyd in "The Political Economy of Seventy-Three Million Dollars," *The Atlantic Monthly*, Vol. L (1882), pp. 69–81, compared Jay Gould to an assassin. Inspired by this article, Carl Schurz referred to contemporary business leaders as "the robber barons" in a Phi Beta Kappa oration at Harvard University. Also, in *The Chicago Tribune* "of the early eighties" Lloyd's editorials "made repeated comparisons between the great railroad magnates and the nobility of the Medieval Rhine." See Chester M. Destler, "Entrepreneurial Leadership Among the 'Robber Barons': A Trial Balance," *The Tasks of Economic History* (Supplemental Issue of *The Journal of Economic History*), Vol. VI (1946), p. 28, n. 1.

[4] Daniel Aaron, *Men of Good Hope: A Story of American Progressives* (New York, 1951), pp. 150, 158, 169.

[5] Henry Demarest Lloyd, *Wealth against Commonwealth* (New York, 1902 ed.), pp. 509, 510, 6.

[6] For the Nevins-Destler debate over Lloyd's accuracy see Chester McA.

there is controversy over Lloyd's accuracy, there is general agreement that his book strongly influenced public opinion. More, probably, than *Chapters of Erie, and Other Essays*, or *Progress and Poverty*, or such relatively mild novels as *The Gilded Age*, *Looking Backward*, and *A Traveler from Altruria*, it served to fasten a robber baron portrait of the postwar businessman into the American mind.

This portrait was etched more deeply as the century waned and Populism broadened into Progressivism. The intellectual preoccupations of the Progressive Era – the national debate over controlling the trusts, the muckrakers' revelations, Socialist agitation, and the novels of big business by naturalists like Frank Norris and Theodore Dreiser – created a climate of suspicion and hostility toward American business leaders. Business chicane was held up to the public by a host of writers, including Lincoln Steffens, whose *Shame of the Cities* exposed corrupt politics and corporate privilege more fully than had James Bryce's *American Commonwealth*; Gustavus Myers, whose Socialist *History of the Great American Fortunes* was to become a source book for future writers of robber baron history; Thorstein Veblen, who began in the *Theory of the Leisure Class* and the *Theory of Business Enterprise* a series of attacks on predatory businessmen; E. A. Ross, whose *Sin and Society* denounced corporate amorality; and Ida Tarbell, who retraced Lloyd's steps more thoroughly and objectively in her *History of the Standard Oil Company*.

Two eminent American historians whose work reflected the Progressive ideology were Vernon Louis Parrington and Charles A. Beard. Both made zestful use of the idea of the robber barons. Parrington, whose Progressive cast of mind was reinforced by a Jeffersonian agrarian bias against businessmen, seems to have accepted the idea with little reservation, though he expressed it in maritime metaphors. When in the last volume of his *Main Currents in American Thought* he presents his "Figures of Earth," the outstanding personages of the Gilded Age, he discusses "ruthless, predatory" business leaders, "the raw materials of a race of capitalistic buccaneers." Within the space of three more sentences he

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Destler, "Wealth against Commonwealth, 1894 and 1944," *American Historical Review*, Vol. L (Oct., 1944), pp. 49–69, and Allan Nevins, Letter to the Editor, *American Historical Review*, Vol. L (April, 1945), pp. 676–689. Ralph W. Hidy and Muriel E. Hidy, *Pioneering in Big Business, 1882–1911* (New York, 1955), p. 644, supports Nevins' judgment.

remarks that "Pirate and priest issued from the common source. . . ." And again in the next sentence, "The romantic age of Captain Kidd was come again. . . ." Plainly this master of metaphors loved to take his figures of earth to sea aboard a pirate ship; and it is perhaps not unfair to say that few if any of his metaphors, either in his description of the Gilded Age or in his artistic narrative of the Progressive Era, convey other than a predatory image of the American businessman.[7]

To the mind of Charles Beard, historical patterns were not so clear-cut. His analysis of post-Civil War business leaders in *The Rise of American Civilization,* written with Mary Beard, emphasized the historical importance of the businessman in successive civilizations from ancient times to modern America. The Beards not only pointed out the creative results of American business expansion, but held Ida Tarbell "partly responsible for the distorted view" of the Standard Oil Company to be found "in the popular mind." Her history they dismissed as "a drama with heroes and villains, rather than a cold and disinterested summary by an impartial student." And yet, for all their interest in objectivity, the Beards made extended use of the idea of the robber barons. Phrases like "barons of business," and "the new capitalist baronage" run through a narrative that presents a generally negative analysis of the methods and motives of business consolidation. The following passage is typical: "If the barons of capitalism did not themselves put on armor and vanquish the possessors of desirable goods in mortal combat . . . they did sometimes hire strong-arm men. . . . Usually, however, they employed less stereotyped means to attain their ends; namely, stock manipulation, injunctions, intimidation, rate cutting, rebates, secret agreements, and similar pacific measures."[8]

Why did Beard and Parrington so freely employ the idea of the robber barons? The answer to this question, to the extent that it can be provided, would seem also to help us understand the meaning and uses of the idea for Progressive writers in general, and for the many later-day historians who have been influenced by Beard and Parrington.[9] A number of factors must be considered.

[7] Vernon Louis Parrington, *Main Currents in American Thought* (New York, 1930 ed.), Vol. III, pp. 10–12, 405–413.

[8] Charles A. Beard and Mary R. Beard, *The Rise of American Civilization* (New York, 1934 ed.), Vol. II, pp. 166–210; for quoted portions see pp. 187, 201.

[9] Richard Hofstadter has called attention to the Progressive bent of Beard

First, it seems proper to place both Beard and Parrington within the general category of Richard Hofstadter's discontented professoriat of the Progressive Era, those members of a rising academic profession who were critical of American business civilization, resentful of being controlled by boards of trustees dominated by conservative businessmen, and troubled by academic-freedom cases.[10] Parrington and Beard knew from personal experience how conservative pressure could affect college faculties. In 1908 Parrington lost his position as professor of English at the University of Oklahoma during the controversy that arose when President David R. Boyd of the university was replaced by a political supporter of the governor of the state, C. N. Haskell, who was soon to be accused of improper affiliations with the Standard Oil Company.[11] In 1917 Beard resigned from Columbia University after he became convinced that conservative trustees were trying to purge the faculty of liberals on the pretext that they were disloyal Americans. Max Lerner has described this resignation as basically "a protest against business control of university educational policy." Such unpleasant experiences may well have influenced Parrington and Beard toward a readier acceptance of what Hofstadter and Walter Metzger call the "potent academic stereotype" of "the businessman as a malefactor." [12]

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and Parrington and their wide appeal to other writers. See his "Charles Beard and the Constitution," in Howard K. Beale, ed., *Charles A. Beard: An Appraisal* (Lexington, Kentucky, 1954), p. 88. That there is high professional regard for *Main Currents* and *The Rise of American Civilization* is clearly shown in John Walton Caughey, "Historians' Choice: Results of a Poll on Recently Published American History and Biography," *Mississippi Valley Historical Review*, Vol. XXXIX (Sept., 1952), p. 299.

[10] Richard Hofstadter, *The Age of Reform: From Bryan to F. D. R.* (New York, 1955), pp. 154–155.

[11] Parrington called this controversy a "political cyclone." George Harvey Genzmer, "Vernon Louis Parrington," *Dictionary of American Biography*, Vol. XIV (1934), ed. by Dumas Malone, p. 253. Along with President Boyd, some dozen members of the Oklahoma faculty were fired. The controversy arising from these dismissals and the accusations of improper relationships with Standard Oil that led in the fall of 1908 to Governor Haskell's resignation as treasurer of the Democratic National Committee can be followed in a series of unsigned editorial articles in *The Outlook*, Vol. XC (1908), Sept. 5, pp. 15–17, Oct. 3, pp. 233, 235–237, 242–244, 249–251, Oct. 17, pp. 325–326. It might also be noted that Parrington's good friend and colleague at the University of Washington, J. Allen Smith, was fired from Marietta College for publishing liberal monetary views and supporting William Jennings Bryan in the election of 1896. Richard Hofstadter and Walter P. Metzger, *The Development of Academic Freedom in the United States* (New York, 1955), pp. 423–424.

[12] Investigations by the trustees and summary dismissals of faculty members

Another probable influence upon Beard and Parrington is the Progressive concept of reality. The Progressives, according to Hofstadter, conceived of reality as something akin to what the muckrakers revealed. Basically it was "rough and sordid . . . hidden, neglected, and . . . off-stage . . . essentially a stream of external and material events. . . ." [13] The relation of the robber baron idea to this kind of reality is obvious. When Beard and Parrington wrote of the rough, sordid, hidden and off-stage methods by which a Jay Gould manipulated railroads, they could sincerely feel that they were describing the basic reality of business in Gould's time. Parrington also reflects the fascination with brute strength that Alfred Kazin has emphasized as a facet of the Progressive mind. His business leaders of the seventies were vital, "primitive souls . . . never feeble . . . never given to puling or whining," men of the bold buccaneer or robber baron breed.[14]

Also pertinent to this inquiry is the Marxian economic approach to history that has influenced Beard and Parrington and other Progressive writers,[15] and indeed the entire American historical profession, which has made much fruitful use of economic interpretation while rejecting other aspects of Marxism. The idea of the robber barons fits nicely into economic interpretation: the very imagery of it tends to exclude noneconomic analysis. Moreover, the idea affords a convenient means of classifying a lot of individualistic businessmen, plus an opportunity for interesting, colorful writing. The business buccaneers, though wicked, were "picturesque in their rascality." [16] Nor, finally, should it be forgotten that at the time *Main Currents* and *The Rise of American Civilization* were written historians knew relatively little about post-Civil War business expansion, aside from the more sensational and sordid events. The

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preceded Beard's resignation. See Charles A. Beard, "A Statement," *The New Republic,* Vol. XIII (Dec. 29, 1917), pp. 249–250. Lerner's interpretation can be found in his *Ideas Are Weapons: The History and Uses of Ideas* (New York, 1939), p. 158. Additional details are given in Hofstadter and Metzger, *Academic Freedom*, pp. 501–502. The reference to the academic stereotype of the businessman is on page 420 of this work; in Chapter IX, "Academic Freedom and Big Business," Hofstadter and Metzger show how the stereotype developed in the Populist and Progressive Eras, and how it does not always fit the facts of academic-freedom cases prior to the First World War.

[13] Hofstadter, "Charles Beard and the Constitution," p. 87.

[14] Alfred Kazin, *On Native Grounds: An Interpretation of Modern American Prose Literature* (New York, 1942), p. 93; Parrington, *Main Currents,* Vol. III, p. 12.

[15] Hofstadter, "Charles Beard and the Constitution," pp. 81–82.

[16] Parrington, *Main Currents,* Vol. III, p. 12.

Beards, in fact, carefully pointed out that the methods that brought about this expansion had "never been subjected to scientific analysis." [17]

Readily available to other writers, then, in the history of Parrington and Beard, the idea of the robber barons flourished in the debunking twenties and took on fresh vitality in the thirties. During the Great Depression, businessmen were more suspect than ever. Intellectuals quoted the Brookings Institution on America's wasted capacity to produce, Keynes on the "secular stagnation" of capitalism, and Berle and Means on the future dangers of corporate growth. Businessmen were blamed for America's entry into the First World War, and also, after a brief NRA honeymoon, for the continuing depression. Some former Progressives, and young intellectuals who might once have been Progressive, embraced Communism.[18]

The nation was in a mood receptive to a number of new books that embodied the idea of the robber barons, such as Lewis Corey's *The House of Morgan*, Frederick Lewis Allen's *The Lords of Creation*, and Josephson's *The Robber Barons*. Josephson, who dedicated his book to Charles and Mary Beard, traveled further down the road of Marxian determinism than the Beards had gone. His barons, though touched with an aura of glamor, were essentially grim, amoral figures, furthering the Marxian process of expropriation and consolidation of property. Their activities were making the masses of workers dissatisfied with the old business system and "the fearful sabotage practiced by capital upon the energy and intelligence of human society." [19] In the stricken nation of the thirties, epitomized in John Dos Passos' *U. S. A.*, Josephson's book read convincingly enough. Perhaps more than any other single volume it served to disseminate the phrase, "the robber barons," through American historical writing. It was, in a sense, the culmination of the idea expressed in its title.

Now let us consider some views of American business leaders that, taken all together, might be termed the revisionist approach to the idea of the robber barons. Edward C. Kirkland has called attention to Charles Francis Adams, Jr., E. L. Godkin, and Andrew

[17] C. A. and Mary Beard, *The Rise of American Civilization*, Vol. II, p. 198.

[18] A. D. H. Kaplan, *Big Enterprise in a Competitive System* (Washington, D. C., 1954), pp. 27–29; Eric F. Goldman, *Rendezvous with Destiny* (New York, 1953), pp. 353–367; Aaron, *Men of Good Hope*, pp. 295–297.

[19] Matthew Josephson, *The Robber Barons: The Great American Capitalists 1861–1901* (New York, 1934). The quoted portion is from p. 453.

Carnegie as conservatives of the Gilded Age whose "conclusions that the business order of their day was not all evil, loss, and hypocrisy should contribute to a more balanced judgment of the era." [20] Adams considered the robber baron metaphor, as applied by the Grangers to railroad corporations, "a grotesque absurdity." [21] However it should be noted that in 1869, the year he wrote "Chapters of Erie," Adams remarked in a private letter that Daniel Drew, Cornelius Vanderbilt and Jay Gould made "the old robber barons" appear like "children in the art of thieving. . . ." [22] Actually Adams seems to have entertained toward the American business world ambivalent attitudes that reflect his personal aspirations and experiences as railroad reformer, railroad president, and victim of Jay Gould.[23]

If Adams did not wholly accept the idea of the robber barons, neither did a major American historian, Frederick Jackson Turner. Turner was certainly no apologist for industrial wrongdoing, yet his complex approach to the past led him to see aspects of American industrial expansion that did not fit into the robber baron mold. In an essay first published in 1926 he distinguished Western builders of new industry from Eastern speculative investors in old enterprises, and characterized John D. Rockefeller, Cyrus McCormick, J. O. Armour, and Jay Cooke, among others, as creative sons of Middle Western pioneers.[24] Earlier, at a time when trust-busting ideas were in the air, he had stressed the complexities involved in historical analysis of the two decades of industrial expansion from 1890 to 1910. The occasion was his presidential address of 1910 to the American Historical Association. He noted that the two decades in question were "peculiarly the era when competitive

[20] Kirkland, *Business in the Gilded Age*, p. 59.

[21] Adams, *Railroads*, pp. 128–129; Kirkland, *Business in the Gilded Age*, p. 12.

[22] Joseph Dorfman, *The Economic Mind in American Civilization*, Vol. III, 1865–1918 (New York, 1949), p. 23.

[23] In his autobiography, Adams set forth his often quoted view of American big businessmen as "mere money-getters . . . essentially unattractive and uninteresting," but also confessed that as his life's achievement he "would like to have accumulated — and ample and frequent opportunity for so doing was offered me — one of those vast fortunes of the present day, rising up into the tens and scores of millions . . ." so that he could have donated a fortune to Harvard. *Charles Francis Adams 1835–1915: An Autobiography* (Boston, 1916), pp. 190, 210.

[24] Frederick Jackson Turner, *The Significance of Sections in American History* (New York, 1932), pp. 262–264. Compare the strong emphasis on the creative achievement of post-Civil War industrial capitalists in Louis M. Hacker, *The Triumph of American Capitalism* (New York, 1940), pp. 427–435.

individualism" in America changed into monopoly, but quoted E. H. Harriman to the effect that industrial combination and expansion were in keeping with the speculative pioneer spirit that had developed the nation. He then pointed out that American ideals and moral standards were changing. The squatter ideal of "individual freedom to compete unrestrictedly for the resources of a continent" was yielding to an increasing use of government in order that Americans might preserve another ideal – democracy. Violations of land laws that were formerly condoned by the public and defended in Congress now resulted in jail sentences. "That our great industrial enterprises developed in the midst of these changing ideals," Turner concluded, "is important to recall when we write the history of their activity." [25]

In this same address Turner reminded his fellow historians that among the "complex of forces" molding the past were individual leaders, who were shaped by their own creative genius and by the psychology, moral tendencies, and ideals of their time and place.[26] His words, which thirty-nine years later would be echoed by historians seeking greater understanding of American business leaders,[27] might well serve as a general criterion for biographical writing, and biographers who have studied American businessmen in this spirit have produced works that seriously challenge the idea of the robber barons. A number of nonrobber baron biographies appeared in the antibusiness thirties, contrasting markedly with the general tenor of popular thought. Among these were works by John T. Flynn, Burton J. Hendrick, William T. Hutchinson, Allan Nevins, and Henrietta M. Larson.[28] All wrote with varying degrees of sympathy, and re-created business leaders too multisided to be dismissed simply as predatory money seekers. In each business

[25] Frederick Jackson Turner, *The Frontier in American History* (New York, 1920), pp. 317–321, 328.

[26] *Ibid.*, p. 322.

[27] There is a striking similarity between the approach to the past advocated here by Turner and the modern methods for understanding business leaders that are set forth, much more fully, of course, and in more technical language, in *Change and the Entrepreneur: Postulates and Patterns for Entrepreneurial History* [Research Center in Entrepreneurial History, Harvard University], (Cambridge, Massachusetts, 1949), pp. 108–175.

[28] John T. Flynn, *God's Gold: The Story of Rockefeller and His Times* (New York, 1932); Burton J. Hendrick, *The Life of Andrew Carnegie* (Garden City, New York, 1932), 2 vols.; William T. Hutchinson, *Cyrus Hall McCormick: Harvest, 1856–1884* (New York, 1935); Allan Nevins, *Abram S. Hewitt: With Some Account of Peter Cooper* (New York, 1935); Henrietta M. Larson, *Jay Cooke: Private Banker* (Cambridge, Mass., 1936).

career examined, negative and positive means and ends seemed inseparably bound together. With this duality in mind, N. S. B. Gras in his introduction to Larson's *Jay Cooke* declared that businessmen are generally "above the average in creative work" and complained that a "recent national pastime" had been to judge them without studying them.[29]

The dual nature of business careers was one of several theses advanced in Allan Nevins' *John D. Rockefeller*, which appeared in 1940. Nevins as early as 1927 had published a balanced account of post-Civil War business, and in 1934 had demurred at Josephson's sweeping use of the robber baron metaphor.[30] In the Rockefeller biography, he followed the English economist Alfred Marshall in ascribing the Standard Oil trust to "a combination of exceptional constructive ability and astute destructive strategy." He held that Rockefeller and his associates had often used methods that were morally wrong as well as unlawful, but like Charles R. Van Hise he argued that the kind of monopoly control they effected was a natural and even inevitable response to the cutthroat competition of the times, in Europe as well as in the United States. Like Turner, he stressed the changing business ethics of Rockefeller's era. And like Joseph Schumpeter he drew attention to the complexity of the motives of entrepreneurs. The chief motive of leaders like Rockefeller, Nevins asserted, was not greed but "competitive achievement, self-expression, and the imposition of their wills on a given environment." Schumpeter had distinguished entrepreneurial activities in which financial gain was secondary, and "economic action becomes akin to sport." Nevins wrote: "In business . . . Americans of the nineteenth century found the Great Game." This analysis contrasts somewhat with that of Werner Sombart, who conceded that entrepreneurs have nonacquisitive motives, but argued that since profit is the measure of capitalistic success all other motives in capitalistic enterprise become "subordinate to profit making."[31]

[29] Larson, *Jay Cooke*, p. xiv.

[30] *The Emergence of Modern America 1865–1878* (New York, 1927), pp. 42, 397–400; review of *The Robber Barons* in *The Saturday Review of Literature*, Vol. X (March 3, 1934), p. 522. But in *Grover Cleveland: A Study in Courage* (New York, 1933), p. 607, Nevins in summarizing the social unrest of the nineties mentioned only the sordid side of the Standard Oil record and favorably described Lloyd's *Wealth against Commonwealth* as a "searching exposure" and the parent of later muckraking literature.

[31] Allan Nevins, *John D. Rockefeller: The Heroic Age of American Enterprise* (New York, 1940), Vol. I, pp. 603–622, Vol. II, pp. 707–714; Charles R. Van Hise, *Concentration and Control: A Solution of the Trust Problem in the*

When Nevins in 1953 published a second biography of Rockefeller, he adhered essentially to his earlier interpretation, but advanced a more elaborate hypothesis of business leadership after the Civil War. The constructive aspects of this leadership were in the long run, he declared, more important than the destructive. American historians should follow the English example and correct their national industrial history – too long based mainly on legislative investigations of business chicane – to show the constructive side. America's industrial revolution had "cost less than Germany's, much less than England's, and infinitely less than Russia's." Further, and most important, the rapid expansion of American industry after the Civil War had come just in time to insure victory for "the free world" in the two World Wars. But had better ways been available for building national industrial strength? Nevins did not inquire. His broad hypothesis, which of course did not escape challenge, probably represents the culmination to date of the revisionist approach to the idea of the robber barons.[32]

Yet business history of all types, biographical and otherwise, offers numerous other studies of a nonrobber baron nature, some of them quite recent. James Blaine Hedges, Richard C. Overton, Edward C. Kirkland, and Thomas C. Cochran, among others, have emphasized the constructive work of certain railroad leaders of the Gilded Age.[33] Fritz Redlich has redefined Schumpeter's "entrepreneur" as "creative entrepreneur" and analyzed the creative achievement of American business leaders in banking and the iron and steel industry.[34] Ralph and Muriel Hidy, restudying the rise

United States (New York, 1912); Joseph A. Schumpeter, *The Theory of Economic Development*, trans. Redvers Opie (Cambridge, Mass., 1934), p. 93; Werner Sombart, "Capitalism," *Encyclopedia of the Social Sciences*, ed. by Edwin R. A. Seligman and Alvin Johnson, Vol. III (1930), p. 200.

[32] Allan Nevins, *Study in Power: John D. Rockefeller* (New York, 1953), Vol. I, p. viii, Vol. II, pp. 426–436. See also Allan Nevins, "New Lamps for Old in History," *The American Archivist*, Vol. XVII (Jan., 1954), pp. 3–12. Josephson opposes this hypothesis in Nevins and Josephson, "Should American History be Rewritten?", pp. 9–10, 44–46.

[33] James Blaine Hedges, *Henry Villard and the Railways of the Northwest* (New Haven, 1930); Richard C. Overton, *Burlington West: A Colonization History of the Burlington Railroad* (Cambridge, Mass., 1941); Edward Chase Kirkland, *Men, Cities and Transportation: A Study in New England History 1820–1900*, 2 vols. (Cambridge, Mass., 1948); Thomas C. Cochran, *Railroad Leaders 1845–1890: The Business Mind in Action* (Cambridge, Mass., 1953).

[34] Fritz Redlich, *History of American Business Leaders: A Series of Studies*, Vol. I, *Theory, Iron and Steel, Iron Ore Mining* (Ann Arbor, Michigan, 1940), Vol. II, *The Molding of American Banking: Men and Ideas, Part I, 1781–1840* (New York, 1947), *Part II, 1840–1910* (New York, 1951).

of the Standard Oil monopoly, have portrayed Rockefeller as only one member of a business team that mistakenly tried to apply previously learned small business mores to giant industry, and responded somewhat involuntarily to the "prods and pressures" of a changing political and legal climate.[35] Other writers have produced biographies of secondary business leaders who were not robber barons,[36] while statistical studies have thrown new light on the American business elite.[37]

The American business mind is a fruitful field of present-day investigation for entrepreneurial historians who utilize the concepts of social role, social sanctions, and cultural codes of conduct. Notably, Thomas Cochran has demonstrated that Social Darwinism and the Gospel of Wealth are, though certainly important, not the whole story of the business mind, and that certain American railroad leaders of the period 1845–1890 could be influenced quite as often by their view of their proper social role in a given situation as by predatory motives.[38]

Thus, although historians like Josephson and Destler continue vigorously to defend the idea of the robber barons,[39] the current trend in American historiography is away from this concept. Michael Kraus has written that the idea is fading, the 1954 report of the Committee on Historiography of the Social Science Research Council views it skeptically, Thomas Cochran calls it legend.[40] All this may be in part a manifestation of present-day conservatism,

[35] Hidy and Hidy, *Pioneering in Big Business*, pp. xxviii, 3–8, 201–232, 715–717.

[36] For example, Hal Bridges, *Iron Millionaire: Life of Charlemagne Tower* (Philadelphia, 1952); Philip Dorf, *The Builder: A Biography of Ezra Cornell* (New York, 1952).

[37] For example, Francis W. Gregory and Irene D. Neu, "The American Industrial Elite in the 1870's: Their Social Origins," in William Miller, ed., *Men in Business: Essays in the History of Entrepreneurship* (Cambridge, Mass., 1952), pp. 193–211. See also Sidney Ratner, ed., *New Light on the History of Great American Fortunes: American Millionaires of 1892 and 1902* (New York, 1953), in which Ratner in his introduction criticizes various statistical studies of American business leaders.

[38] Cochran, *Railroad Leaders*, pp. 1–16, 92–93, 172, 182–183, 200–228. For another interesting approach to the business mind of the Gilded Age see Edward C. Kirkland, "Divide and Ruin," *Mississippi Valley Historical Review*, Vol. XLIII (June, 1956), pp. 3–17. See also, by Kirkland, *Dream and Thought in the Business Community, 1860–1900* (Ithaca, N. Y., 1956).

[39] Josephson, "Should American History Be Rewritten?", pp. 9–10, 44–46; Destler, "Entrepreneurial Leadership," pp. 28, 38, and "The Opposition of American Businessmen to Social Control During the 'Gilded Age,'" *The Mississippi Valley Historical Review*, Vol. XXXIX (March, 1953), pp. 641–672.

[40] Michael Kraus, *The Writing of American History* (Norman, Okla., 1953),

but this writer regards it primarily as the logical reaction of historians to the cumulative evidence contained in the studies that have been designated here as the revisionist approach to the idea of the robber barons. Of course the revisionist views are not flawless. As a summary critique of them it can be said that the naturalness or inevitability of monopoly at any time in the United States is a moot question;[41] that both Turner and Nevins have been accused of ignoring important aspects of the American economy;[42] that all biographers are open to the charge of being too sympathetic toward their subjects; and that the company records with which business historians work make it difficult for them to avoid a board-of-directors bias. Yet when all discounts have been made for possible error, there does seem to be enough truth left in the revisionist views to reveal the inadequacy of the idea of the robber barons. In an emotional, romanticized way, this concept sums up the business activities of Jay Gould and his kind and expresses the predatory side of the careers of many other business leaders of the post-Civil War era. But it grants insufficient recognition to the creative aspects of such careers or to business leaders of habitually high moral standards. It tends to deny to business leaders through thirty-five years of American life that basic capacity for doing good as well as evil which historians freely concede to other members of the human race. Born apparently of a desire for denunciation rather than objective analysis, the idea of the robber barons seems destined to fall into increasing disuse, as historians seek to apply ever more precise thinking to the complex American past.

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p. 337; *The Social Sciences in Historical Study: A Report of the Committee on Historiography Bulletin 64* (New York, 1954), p. 154; Thomas C. Cochran, "The Legend of the Robber Barons," *The Pennsylvania Magazine of History and Biography,* Vol. LXXIV (July, 1950), pp. 307–321.

[41] Vigorous arguments against the inevitability of monopoly are presented in Walter Adams and Horace M. Gray, *Monopoly in America: The Government as Promoter* (New York, 1955).

[42] On Turner see for example Louis M. Hacker, "Sections — Or Classes?" *The Nation,* Vol. CXXXVII (July 26, 1933), pp. 108–110. On Nevins see for example Lewis Galantière, "John D.: An Academy Portrait," *The New Republic,* Vol. CIII (Dec. 9, 1940), pp. 795–797.

By Raymond de Roover
PROFESSOR OF ECONOMICS
AT BOSTON COLLEGE

The Story of the Alberti Company of Florence, 1302-1348, as Revealed in Its Account Books

This study is an attempt to reconstruct the history of a medieval company on the basis of the extant fragments of its account books, the only surviving records. Despite the incompleteness of the data, it was possible to reach important conclusions and to show that the continued existence of a medieval firm depended on the same factors as today: coordination, efficient management, and effective control. The records also shed interesting light on personnel relations, adjustment to new trends, and the attitude of the merchants toward the Church.

I

In the past twenty years, Professor Armando Sapori, the distinguished Italian economic historian, has published the account books of the Peruzzi,[1] the Gianfigliazzi,[2] and the Frescobaldi.[3] To this series, he has recently added the extant fragments of the account books of another Florentine merchant family: the Alberti del Giudice.[4] There remain to be published the *libri segreti*, or secret account books, of the Medici bank, which were discovered in 1950 in a mislabeled bundle and which extend without interruption from 1397 through 1450.[5] The Medici account books of the Selfridge collection at the Harvard Graduate School of Business Ad-

[1] *I libri di commercio dei Peruzzi*, Armando Sapori, ed. (Milan: Fratelli Treves, 1934), in-4°, pp. lxxxii + 577 and two genealogical charts.

[2] *I libri della ragione bancaria dei Gianfigliazzi*, Armando Sapori, ed. (Milan: Garzanti, 1943), in-4°, pp. lviii + 127 and two genealogical tables.

[3] Armando Sapori, *La compagnia dei Frescobaldi in Inghilterra* (Florence: Leo S. Olschki, 1947), pp. 174.

[4] *I libri degli Alberti del Giudice*, Armando Sapori, ed., with an Introduction by the editor and a Preface by Luigi Einaudi (Milan: Garzanti, 1952), in-4°, pp. xcii + 368, with one genealogical table and one map. (Henceforth referred to as *Alberti.*) The Introduction was republished recently in Armando Sapori, *Studi di storia economica, Secoli XIII–XIV–XV* (3rd ed.; Florence, 1955), pp. 975–1,012. (Henceforth referred to as *Studi.*)

[5] This discovery was announced in an article by Raymond de Roover, "I libri segreti del Banco dei Medici," *Archivio storico italiano*, CVII (1949),

ministration do not belong to the historic or ruling Medici, but to another and elder branch of the same family which, in the eighteenth century, took the name of Medici-Tornaquinci and is still represented today by male descendants.[6]

The Alberti del Giudice, one of the major Florentine families of the fourteenth and fifteenth centuries, became extinct in 1836, but the old family palace still stands today at the corner of the Borgo Santa Croce and the Via dei Benci. Its tower, as much a sign of pride as a means of defense, is reproduced in a beautiful etching by Pietro Annigoni which adds artistic charm to Sapori's scholarly publication. The lines of the palace are simple and severe, and the only ornament, placed prominently half way up the tower, is the family coat of arms: azure, an annulet linking four chains in saltire all argent. The ring and the chains fittingly symbolize the strong feeling of solidarity and singularity of purpose which, in the fourteenth century at least, bound together the members of the Alberti family. Their cohesion saved them from impending doom when, during the period from 1312 to 1315, the family business was threatened with bankruptcy. The recovery was slow and painful, but it put the Alberti firm on such a solid foundation that it became the most powerful banking house in western Europe. The decline came only after 1400 when its leading position was challenged by the rising star of the Medici bank.

The records edited by Professor Sapori deal with the crucial period during which the Alberti Company was in the ascent, but had not yet reached the dominant position which one of its offshoots, the Alberti antichi, attained between 1365 and 1400. Unfortunately, no business records pertaining to this later period have apparently survived. Since the Alberti antichi were papal bankers, they are frequently mentioned, it is true, in the records of the Camera apostolica, or papal treasury, but these references, although numerous, are limited to their management of papal funds and do not give a satisfactory picture of their multifarious other activities.

The Alberti belonged to the nobility and traced descent from the lords of Catenaia, a region in the Apennines near Arezzo.[7] They

pp. 236–240. Although the volume is dated 1949, the second number did not appear until the spring of 1950. The date of the discovery given above is therefore correct.

[6] Gertrude R. B. Richards, *Florentine Merchants in the Age of the Medici* (Cambridge, Mass., 1932), pp. x + 342 with one genealogical table.

[7] Their arms, therefore, are canting arms or *armes parlantes*, since *catena* means "chain" in Italian. Originally the family name was probably da Catenaia.

settled in Florence early in the thirteenth century and probably added "del Giudice" to their name because the head of the family was at one time a prominent judge or notary. Having sided with the Guelph party, the Alberti were exiled after the defeat of Montaperti (1260) and did not return to Florence until 1267 when the Ghibelline faction was driven out by an Angevin host.[8] Although listed as *magnati*, or magnates, the Alberti forsook allegiance to their class and joined the *popolani*, or democrats, in order to qualify for public office in accordance with the new constitution of 1293.[9] Wisely, however, they refused to be drawn into the turbid whirlpool of Florentine politics and played no conspicuous role until the tumult of the Ciompi, or the revolt of the woolen workers and the lesser gilds in 1378. Benedetto di Nerozzo d'Alberto di Jacopo degli Alberti (died 1388) was one of the few merchants who reluctantly accepted office in the new government. This was a mistake, and Benedetto made it worse by supporting a deflationary measure designed to stem the continuous depreciation of the petty silver currency, or *moneta di piccioli*.[10] Since wages were paid in *piccioli*, this measure was against the interests of the major gilds, especially the *lanaiuoli*, or wool manufacturers.[11] When the oligarchy returned to power in 1382, its leader, Maso degli Albizzi did not pardon Benedetto degli Alberti for cooperating with the "democratic" government, but bided his time until he was firmly in the saddle. Only in 1387 did he seize upon an occasion to send his foe and several other Alberti into exile, ironically under the accusation that they were magnates menacing the stability of democratic institutions.[12]

[8] *Alberti*, p. xxi and *Studi*, pp. 975–976.

[9] However, they are not on the list of 70 families of magnates published by Gaetano Salvemini, *Magnati e popolani in Firenze dal 1280 al 1295* (Florence, 1899), pp. 376–377. Cf. Ferdinand Schevill, *History of Florence from the Founding of the City through the Renaissance* (New York, 1936), p. 159.

[10] Niccolò Rodolico, *La democrazia fiorentina nel suo tramonto, 1378–1382* (Bologna, 1905), pp. 257–265.

[11] In other words, the master-manufacturers, by means of currency depreciation, managed to reduce real wages without touching nominal wages. See the famous passage in Giovanni Villani's *Cronica*, Bk. xii, Chap. 97. The practice of paying workers in debased coin is condemned as fraudulent by san Antonino (1389–1459), archbishop of Florence, *Summa theologica*, Part III, title 8, cap. 4, § 4.

[12] Schevill, *op. cit.*, p. 339. The wrath of Maso degli Albizzi did not abate, and he issued harsher and harsher decrees against the Alberti, namely in 1393, in 1396, and in 1401. Finally he put a prize on the heads of several Alberti, one was beheaded for returning secretly to Florence. *Alberti*, p. xxii. A detailed account of the decrees of banishment will be found in Girolamo Mancini's

This was a severe blow, but it did not crush the spirit of the Alberti or cause their ruin. Some of their property in Florence was confiscated, but their bank had branches abroad which were beyond Albizzi's reach and continued to operate without hindrance. For forty years, no male descendant of the Alberti family above sixteen years of age was allowed to reside in Florence. This law was not repealed until 1428 and the confiscated property was not restored until 1434, after Cosimo de'Medici had assumed control of the Florentine government. In gratitude, the surviving Alberti became faithful supporters of the Medici regime. They also gave up business to live from the revenue of their landed property. The slow, though gilded, decline was about to start, but first the family produced its great man: Leon Battista degli Alberti (1404–1472).

He was born in Genoa, the natural son of Lorenzo di Benedetto.[13] After studying at the universities of Padua and Bologna, he received at the age of twenty-four the degree of Doctor of Canon Law. Leon Battista, however, became more than a jurist, for his versatility was such that he distinguished himself in letters, music, painting, and mathematics. After visiting the ruins of imperial Rome in 1432, he acquired such a deep interest in architecture that he became a master in this art. In 1450 he completed his famous book *De re aedificatoria* in which he advocated a return to the architectural forms of antiquity.[14] Putting his ideas into practice, he drew the plans of several monuments which are among the early examples of Renaissance style. At the behest of Giovanni di Paolo Rucellai (1403–1481), the most important Florentine banker after the Medici, Alberti designed the façade of the church of Santa Maria Novella and directed the building of the Rucellai palace and the loggia across the street. In the field of economics, he made no important contribution, although his treatise *Della famiglia* (*Concerning the Family*) has attracted wide attention, especially in modern times. It is only one among several treatises on household management after the manner of Xenophon,[15] but the German economist Werner

introduction to Leon Battista degli Alberti, *I libri della Famiglia* (Florence, 1908), pp. xvii–xix.

[13] The best biography is perhaps that of Girolamo Mancini, *Vita di Leon Battista Alberti* (2d ed.; Florence, 1911). For a bibliography on Alberti, consult also: Paul-Henri Michel, *Un idéal humain au XVe siècle; la pensée de L. B. Alberti* (Paris, 1930), pp. 11–46.

[14] It was not printed until 1485, after the author's death, while printing was still in its infancy.

[15] One of those treaties, that of Benedetto Cotrugli (*Della mercatura e del mercante perfetto*), written in 1458, but published only in 1573, actually has

Sombart (1863–1941) greatly magnified its importance by representing it as the first apology of utilitarianism, capitalistic virtues, and petty-bourgeois ideals.[16] According to Sombart, Alberti was little less than a forerunner of Benjamin Franklin.[17]

It is true that Leon Battista Alberti advocates frugality and careful husbandry, but he also extols benevolence and magnificence for the sake of family prestige, and this cult of the clan is not to my knowledge a bourgeois trait. Leon Battista had inherited it from a long line of ancestors. A century before he was born, the Alberti, as Professor Sapori shows, on the strength of their account books, already knew how to manage their business efficiently, but it did not prevent them from rating honor higher than money or wealth.[18] Feudal tradition was far from moribund in 1300 and it was still alive in 1400. To make Leon Battista degli Alberti into a parsimonious *petit bourgeois* is a misrepresentation of the facts. Sombart commits the mistake of assuming that rational business conduct was incompatible with the survival of feudal traditions. The truth is that both did exist side by side in the Italy of the Communes, and many examples could be adduced in support of this contention not only from the Alberti records themselves, but also from the Datini papers, the Medici correspondence, the *ricordi* or memoirs of Lorenzo the Magnificent,[19] and the *zibaldone* of Giovanni di Paolo Rucellai.[20]

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a chapter entitled "L'uomo economo" (The Economic Man). Of course, this expression does not have the same meaning as that attached to it by economists today: it refers simply to an efficient household and business manager. A copy of Cotrugli's treatise is in the library of Yale University. The Kress Library, Harvard Graduate School of Business Administration, has copies of two editions on microfilm.

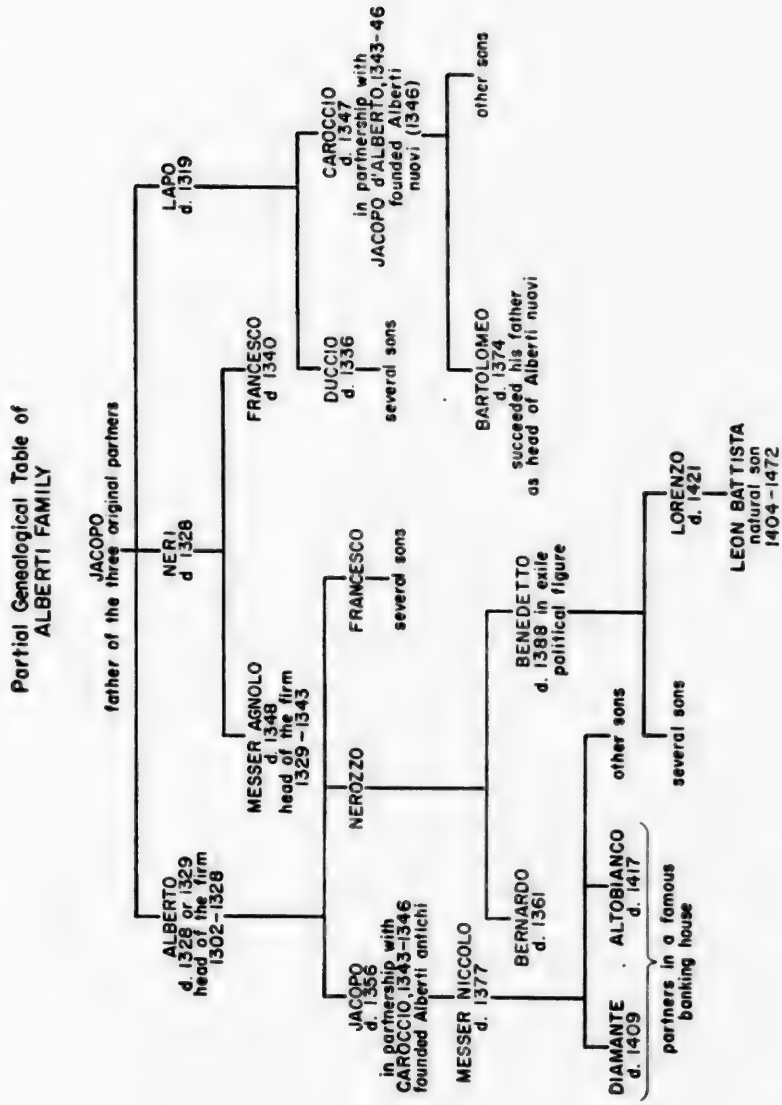
[16] *Der Bourgeois: Zur Geistesgeschichte des modernen wirtschaftsmenschen* (Munich, 1913), pp. 282–283. Of course, Sombart admits that Alberti was influenced by Xenophon, but does not see that this admission destroys his thesis (*ibid.*, p. 289).

[17] *Ibid.*, pp. 279 and 282–283.

[18] *Alberti*, pp. xxxvii–xxxviii and xlvii, and *Studi*, pp. 996–998 and 1,009.

[19] William Roscoe, *The Life of Lorenzo called the Magnificent* (9th ed.; London, 1847), appendix 10, p. 426. Lorenzo prides himself on the fact that his family, to enhance its prestige and that of the Florentine state, spent, between 1434 and 1471, more than 17,500 florins a year in charities, buildings, and taxes. Since the florin contained 3.53 grams of pure gold, it was worth nearly $4.00 at the present valuation of $35 an ounce troy; the figure of 17,500 florins corresponds, therefore, to approximately $70,000, but the purchasing power of money was much greater than today.

[20] Rucellai declares in his *Zibaldone* that he derived more satisfaction from spending wisely, especially in public buildings (*muraglie*) than from piling up his earnings. Giuseppe Marcotti, *Un mercante fiorentino e la sua famiglia*


Partial Genealogical Table of
ALBERTI FAMILY
JACOPO
father of the three original partners
ALBERTO
d. 1328 or 1329
head of the firm
1302-1328
NERI
d. 1328
LAPO
d. 1319
MESSER AGNOLO
d. 1348
head of the firm
1329-1343
FRANCESCO
d 1340
DUCCIO
d. 1336
several sons
CAROCCIO
d. 1347
in partnership with
JACOPO d'ALBERTO,1343-46
founded Alberti
nuovi (1346)
BARTOLOMEO
d. 1374
succeeded his father
as head of Alberti nuovi
other sons
JACOPO
d. 1356
in partnership with
CAROCCIO,1343-1346
founded Alberti antichi
NEROZZO
FRANCESCO
several sons
MESSER NICCOLO
d. 1377
BERNARDO
d. 1361
BENEDETTO
d. 1388 in exile
political figure
DIAMANTE
d. 1409
ALTOBIANCO
d. 1417
other sons
partners in a famous
banking house
several sons
LORENZO
d. 1421
LEON BATTISTA
natural son
1404-1472

II

The original partners of the Alberti Company were three brothers Alberto, Neri, and Lapo, the sons of Jacopo degli Alberti. In the beginning there were also two outsiders, but they dropped out in 1304. Later, sons of the three original partners were gradually brought into the firm: the first was Jacopo, son of Alberto, who was admitted as a partner in 1307; others did not follow until 1319. From 1302 to 1328, the head of the company was Alberto, the eldest of the three brothers, whose leadership was never challenged, probably because he managed the business wisely. At his death, he was succeeded by Messer Agnolo degli Alberti, a son of Neri, who was also successful in maintaining harmony among the partners. Within three years from Agnolo's retirement in 1343, the single family concern broke up into competing firms because of the rivalry between the descendants of Alberto and Lapo.

The principal extant record of the activities of the Alberti Company is an account book extending from 1302 to 1329. It contains twelve financial statements, of which two are incomplete. Before going into any detailed and technical analysis of the surviving records, it may be well to give a general idea of the size of the Alberti Company and the nature of its business.

In the beginning of the fourteenth century, the Alberti were chiefly traders; it is only later, as their resources grew and they built up a network of branches and correspondents all over western Europe, that they became involved in international banking and developed close connections with the Camera apostolica or papal treasury. At first, their main line of business was the importation of Flemish cloth which they bought at the famous fairs of Champagne and resold in Italy after having it finished and dyed in Florence. For this purpose they maintained factors, or salaried representatives, in several Italian cities, including Bologna, Milan, Venice, Naples, and Barletta. As the balance of January 1st, 1307, reveals, one large

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nel secolo XV (Florence, 1881), p. 46. Cf. Michel, *op. cit.*, p. 323. The *Zibaldone* of Giovanni Rucellai is still unpublished. Once the property of John Temple-Leader, the manuscript was repurchased by the family and is now in the possession of Count Bernardo Rucellai who still lives in the ancestral palace built according to the plans of Leon Battista Alberti. Giovanni Rucellai advises his sons to remain *bottegai*, meaning cloth or silk manufacturers and not shopkeepers. In other words, it is better in the father's opinion to invest money in manufacturing than to put it into trade or foreign banking (Marcotti, *op. cit.*, p. 108).

shipment which their factors were bringing from France consisted of 466 bolts of cloth.[21] On the same date, the Alberti had in stock in their *fondaco*, or Florentine establishment, 72 pieces of Flemish cloth and some remnants, all having an aggregate value of £3,503 *affiorino*.[22] As Table 1 shows, the bulk was cloth from Ypres, which was also the cheapest. Scarlets from Ghent and Douai were most expensive.[23] They ranged in price from £80 to £100 *affiorino* a piece. One detail may be of interest: the goods in stock were presumably appraised at cost, since the value of seven pieces of cloth from Douai is stated in French, as well as in Florentine, currency.[24]

TABLE 1

CLOTH IN STOCK ACCORDING TO THE FINANCIAL STATEMENT OF THE ALBERTI COMPANY ON JANUARY 1, 1307

Origin	Number of Pieces	Total Value Pounds *affiorino*	Average per Piece £	*s.*	*d.*	*aff.*
Ypres	47	2,124	45	3	10	
Ghent	10	523	52	6	0	
Douai	9	492	54	6	8	
Brussels	6	288	48	0	0	
Remnants of diverse origin	—	76	—	—	—	
Total	72	3,503				

SOURCE: *I libri degli Alberti del Guidice*, Armando Sapori, ed., pp. 39–40.

Later financial statements unfortunately cease to give itemized lists of goods in stock. However, cloth from Caen, Douai, Ghent, Lille, and Malines is mentioned in the incomplete statement drawn up on June 1st, 1317.[25] According to an inventory made in 1329, the Alberti were still importing cloth from abroad, albeit of cheaper quality. They had in their warehouse 128 whole pieces plus several short pieces and remnants having a total value of £3,965 *affiorino*.[26] Flemish cloth was evidently less in demand than it had been twenty years earlier. There is no longer any reference to cloth from Ypres;

[21] *Alberti*, p. 37.
[22] *Ibid*., pp. 39–40.
[23] The word "scarlet" had come to designate a kind of broadcloth and no longer referred to color.
[24] Seven pieces of Douai cloth are said to be worth £442 3*s*. *parisis* or £352 *affiorino*.
[25] *Alberti*, p. 61.
[26] *Ibid*., pp. 98–100.

however, the inventory still lists the products of Douai, Ghent, and Termonde, but chiefly striped cloths and linsey-woolseys (Fr. *tiretaines*, It. *trifane*) instead of the rich scarlets mentioned earlier. Besides, the stock includes cloths from the competing towns in Brabant (Brussels, Louvain, and Malines) and inexpensive fabrics from Châlons-sur-Marne, Saint-Denis, and Toulouse. Tastes and fashions had evidently changed within a few years.

Most of the cloth was imported in the gray and was then dyed and finished in Florence before being sold locally or re-exported. Apparently the Alberti possessed their own dyeing establishment, which was managed by Lapo di Jacopo. Between 1307 and 1319, when he died, several statements refer to money owed by him "on account of the dyeing" (*per ragione della tinta*).[27] On January 1, 1310, this item amounted to £3,822 15*s.* *affiorino*, which suggests that it really relates to an investment rather than to a personal obligation of Lapo (Appendix, statement No. 3). Medieval bookkeepers were in the habit of treating investments as receivables by opening an account to the manager of a branch or a department rather than to the branch or the department itself.[28] If this interpretation is correct, it confirms that Alberto di Jacopo, the eldest of the three brothers, had kept the general management of the firm in his own hands, but had delegated to his brother and partner the task of supervising the dyeing, which undoubtedly required a great deal of attention so that workers would not spoil costly materials.

Like other cloth dealers, the Alberti were members of the Arte di Calimala, or the Merchants' gild. On September 20, 1304, they protested to the gild officials (*consoli*) that Spiglia Ruggerini, one of the two partners not belonging to the family, had broken his word by withdrawing from the partnership without giving due notice in advance.[29] It seems probable that he left as the result of a quarrel about policy, but the entries in the *libro segreto* give no inkling about the nature of the dispute. Now and then the gild also appears in the records as a creditor for dues or brokerage. The Al-

[27] *Ibid.*, pp. 37, 50, 56, and 59.

[28] There are many other examples in the Alberti account books. Thus, on p. 37, there is an item of £23,490 *affiorino* charged to More Bonsignori, a simple factor, *per Fiandra*, that is, for the account of Flanders, and another of £9,164 charged to Fuccio del Maestro, also a factor, *per ragione di Puglia* (for the account of Apulia). There is no doubt that these items do not represent receivables, but refer to funds or merchandise entrusted to employees for the purpose of trading in Flanders or in Apulia.

[29] *Alberti*, p. 36.

berti were still members of the Calimala gild as late as 1350 and probably beyond.[30]

As is well known, Florence, in the first half of the fourteenth century, developed a woolen industry of her own with the result that imports of foreign cloth gradually fell off until they nearly ceased. This development also entailed the slow decline of the Calimala gild and the concomitant rise to power of the Arte della Lana, or Wool gild. It is plausible that the financial troubles of the Alberti Company between 1310 and 1319 stem from their inability to adjust themselves to this new trend. Probably they were slow in switching from the importation of the fine Flemish textiles to the trade in wool and the manufacturing of cloth. They were still importing Flemish and Brabant cloth as late as 1331, since a fardel (*torsello*) belonging to them was seized by the Genoese in the harbor of Porto Pisano.[31]

At any rate, the records indicate that the Alberti eventually succeeded in setting their sails to the wind. The statement of July 1st, 1321, contains several items which show a total of more than £12,378 14*s.* 9*d.* *affiorino* invested in a cloth manufacturing establishment called "the wool shop" (*la bottega della lana*). It also seems that the management of this shop was entrusted to one of the partners, Caroccio di Lapo, and that he was aided by two "factors," or clerks, who also were brothers, Bartolo and Francesco di Lapo Bonsignori (Appendix, statement No. 6).[32] Similar references recur in the statement of January 1st, 1323, and seem to indicate that investment in the "wool shop" attained an aggregate of £12,456 15*s.* 8*d.* *aff.* (Appendix, statement No. 7).[33] Then, in the next balance sheet of August 15, 1325, this sum suddenly drops to £70 *affiorino*, which would suggest that the wool shop had been liquidated.[34] The records, however, give no particulars, and it is useless to guess. An item of £1,900 *aff.* charged to Caroccio di Lapo on account of the wool shop reappears among the assets on November 1, 1327.[35] This amount is increased to £4,700 *aff.* on November 1, 1329, but the wording of the entry intimates that the burden of the management

[30] *Ibid.*, p. 261.
[31] *Ibid.*, p. 285. The fardel contained 12 bolts of cloth (five pieces from Diest, four from Ghent, and three from Brussels).
[32] *Alberti*, p. 67.
[33] *Ibid.*, p. 70.
[34] *Ibid.*, p. 75.
[35] *Ibid.*, p. 80.

has been transferred from Caroccio di Lapo to his first cousin, Francesco d'Alberto.[36] No explanation is given, of course.

While the Alberti thus branched out into manufacturing, they also were forced to readjust their business to new currents of trade and new ways of doing business. At first, their agents at the fairs of Champagne were not permanent, but were still traveling back and forth and personally accompanied the fardels of cloth. Thus, in 1307, the *libro segreto* states explicitly that three factors of the Company (Marco Bonsignori, Bettino Scarpa, and Giovanni di ser Pino) had reached Florence after being "on the road" (*sul cammino*) and that they and "others" had brought from France a shipment of 466 pieces of cloth.[37] They had probably been traveling by caravan, since it is unlikely that the word "others" would refer to attendants in the service of the Alberti. Besides these traveling agents, the company had "factors" stationed in Venice, Naples, Barletta (Apulia), and Milan. Consequently the Alberti, in 1307, were in the transitional stage from the caravan or traveling trade to a new form of organization in which business was conducted from the counting-house.[38] As I have pointed out elsewhere, this transition occurred around 1300 and coincided with the gradual decline of the fairs of Champagne.[39]

III

In 1307, the Alberti Company had fourteen factors, four commuting between Florence and Champagne, three residing in the Kingdom of Naples, two in Bologna, one in Milan and another in Venice, and three who have not been located (Table 2).[40] Salaries of factors amounted to a yearly expenditure of £769 *aff*. The two best paid men were More and Cione Bonsignori who regularly visited the fairs of Champagne to purchase cloth: they received

[36] *Ibid.*, p. 96.

[37] *Ibid.*, p. 37.

[38] This evolution has been stressed by N. S. B. Gras, *Business and Capitalism* (New York, 1939), pp. 67–74. He states (p. 68) that it is not always easy to distinguish a traveling from a sedentary merchant during the transition period.

[39] Raymond de Roover, "The Commercial Revolution of the Thirteenth Century," *Bulletin of the Business Historical Society*, Vol. XVI (1942), pp. 34–39, republished in *Enterprise and Secular Change* (Homewood, Illinois, 1953), pp. 80–85.

[40] In the business language of the Middle Ages, a factor was a clerk or an employee, especially one serving abroad, and not a commission agent, which is the modern meaning.

respectively £150 and £100 *aff.* a year. Fuccio del Maestruccio and Simone del Forte, both in Barletta, were getting much less: only 60 florins or £87 *aff.* These were the top men. Salaries of the rank and file ranged from £20 to £60 *aff.*[41] A beginner or apprentice might earn as little as £10 *aff.* a year. This scale of salaries is lower than that of the Bardi or the Peruzzi who offered their branch managers up to £290 *aff.* or 200 florins a year.[42] However, these companies

TABLE 2

FACTORS IN THE SERVICE OF THE ALBERTI COMPANY ON JANUARY 1, 1307

No.	Name	Salary per Year Pounds *Affiorino*	Intermittent or Permanent Residence
1	More Bonsignori .	150	Champagne and Flanders
2	Cione Bonsignori	100	Champagne and Flanders
3	Simone del Forte	87	Apulia (Barletta)
4	Fuccio del Maestruccio	87	Apulia (Barletta)
5	Guido di ser Rinaldo	60	Bologna
6	Bettino Scarpa	50	Milan and Champagne
7	Giovanni di ser Pino	50	Champagne and Flanders
8	Puccio di Bono	35	Barletta and Naples
9	Bruno di Nuto Benvenuti	30	Venice
10	Bonafede Boninsegna	30	No record
11	Ridolfi Cambi	30	No record
12	Piero di Stefano	30	Bologna
13	Piero di Dedi Falconieri	20	Champagne and Flanders
14	Andrea Passerini	10	No record
	Total	769	

SOURCE: *I libri degli Alberti del Giudice*, Armando Sapori, ed., pp. 40–41.

were much bigger than that of the Alberti and were probably able to outbid their competitors in order to secure the ablest men. In any case, I do not think that business executives in the Middle Ages were underpaid. A man who drew a salary of 200 florins or even 150 florins could live very comfortably according to the standards

[41] These salaries were the same as those paid by competitors.

[42] This was the salary of Francesco di Balduccio Pegolotti, the compiler of a famous manual for merchants. He was a branch manager in the service of the Bardi and was important enough to negotiate commercial treaties with foreign governments. Armando Sapori, *La crisi delle compagnie mercantili dei Bardi e dei Peruzzi* (Florence, 1926), p. 263. Cf. *idem*, "Il personale delle compagnie mercantili del Medio Evo," *Studi*, pp. 695–763.

of the time; he could afford a large house, one or two servants, and a horse or a mule in the stable.

The size of the staff of the Alberti Company was still the same on January 1, 1308, but during the next two years it increased from fourteen to twenty factors.[43] No further records concerning personnel are available until March 25, 1348, just before the Black Death, when the company founded by Caroccio had in its employ

TABLE 3

EMPLOYEES IN THE SERVICE OF THE COMPANY OF CAROCCIO DI LAPO DEGLI ALBERTI ON MARCH 25, 1348

No.	Location and Name	Yearly Salary Pounds *Affiorino* £	*s.*	*d.*
	Florence			
1	Filippo di Bruno Benvenuti, bookkeeper (*scrivano*), 45 florins	65	10	0
2	Bartolo di Lapaccio Bonsignori, 45 florins	65	10	0
3	Guido di Salterelli Bacherini, 45 florins	65	10	0
4	Bonagrazia di Lippo Bonagrazie, 40 florins	58	0	0
5	Piero di Mugnaio di Recco, 36 florins	52	4	0
6	Cipriano di Lippozzo Mangioni, 32 florins	46	8	0
7	Giovanni d'Agnolo Compiubiesi	24	0	0
8	Francesco di Cione Bonsignori	12	0	0
9	Pagolo di Mugnaio di Recco	12	0	0
10	Niccolò di Lapaccio Niccoli	12	0	0
	Total for Florence	413	2	0
	Avignon			
11	Mugnaio di Recco di Ghiacceto, 60 florins	87	0	0
12	Lorenzo Bartoli, 40 florins	58	0	0
13	Cafagino di Gherardo Cafagini, 30 florins	43	10	0
14	Guasparre di Dore Malespini	18	0	0
15	Bartolomeo di Leone Simoni	18	0	0
16	Piero di Gherardino Gherardini	12	0	0
	Total for Avignon	236	10	0
	Naples and Barletta			
17	Andrea di Lippozzo Mangioni	87	0	0
18	Filippo di Schiatta di Lippozzo	30	0	0
19	Benedetto di Bruno Benvenuti	24	0	0
	Total for Naples and Barletta	141	0	0
	Total	790	12	0

SOURCE: *I libri degli Alberti del Giudice*, Armando Sapori, ed., pp. 219–223.

[43] *Alberti*, pp. 50–51.

as many as 19 factors: ten in the *fondaco* or countinghouse of Florence, six in Avignon, and three in Naples and Barletta. As Table 3 shows, there was not much change in the salary scale or in total expenditure per year. On the other hand, more clerks were employed at headquarters in Florence. The Alberti Company still kept up its connections in Naples and Apulia, but was no longer represented at the fairs of Champagne, which had completely decayed anyhow. Instead they now had a branch in Avignon, the seat of the papacy.

A payroll of less than twenty names may not impress a modern reader who lives in an age when giant corporations sometimes have thousands of workers and large banks have hundreds of employees. For its time, however, the Alberti Company was above average size. In Lucca, an important manufacturing and trading center, the most important company was that of the Guinigi and it had no more than nineteen persons on its staff in 1372.[44] In Florence itself, there were probably few companies which surpassed the Alberti, with the exception of the three giants: the Acciaiuoli, the Bardi, and the Peruzzi. No statistical data are available for the Bardi, but the Acciaiuoli, the smallest of the three, gave employment to 53 factors in 1341 and the Peruzzi, which was the second largest, had a clerical staff of nearly 90 in 1336.

In dealing with their employees, the Alberti seem to have followed a policy of fairness. There were, of course, the usual troubles; they are of a perennial nature and occur today as well as in the Middle Ages. One dishonest branch manager committed so many irregularities that the Alberti had him arrested and thrown in jail. In order to be released, he was compelled to restore what he could, but it was not enough to make good the loss to his employers. Two other factors, serving the company in Avignon, were unable to repay money which they had misappropriated and lost in gambling. Having also neglected their duties, they were dismissed without further ado.[45] Two brothers, Filippo and Benedetto di Bruno Benvenuti, overdrew and were still in debt to the company when both died from the Black Death (1348) within a few days of each other.[46] In order to pay off their indebtedness, they willed to their employers a family holding in Bagno a Ripoli, a village near Florence. However-

[44] Raymond de Roover, *Money, Banking, and Credit in Mediaeval Bruges* (Cambridge, Mass., 1948), pp. 39–40.

[45] *Alberti*, p. xli, and *Studi*, p. 1,001.

[46] *Alberti*, p. 258.

ever, such cases were rare; in general the Alberti had satisfactory relations with their personnel. The turnover among the minor clerks was rather high, but top men, such as the Bonsignori brothers, stayed with the firm for many years. Sometimes sons followed in their fathers' footsteps and joined the staff, as for example, Francesco di Cione Bonsignori who, incidentally, also was carried off by the plague in 1348.[47] Another case is that of Mugnaio di Ricco, the chief clerk in Avignon, whose two sons also were working for the Alberti Company, but in the *fondaco* in Florence.

One of the factors in the service of the Alberti Company, Francesco di Lapo da Castiglionchio, was the father of the famous jurist, Lapo di Francesco da Castiglionchio (died 1381), who was exiled from Florence in 1378 as one of the most hated supporters of the oligarchic government. The father was by no means rich: in 1329 he was earning only £20 *aff*. a year.[48]

IV

The records edited by Professor Armando Sapori include fragments of five different account books: (1) the *libro piccolo dell'-asse d'Alberto del Giudice e Compagni*, (2) the *libro delle possessioni di Duccio e d'Alberto di Lapo del Giudice*, (3) the *libro verde segreto dell'asse C* or the *Libro segreto* of Caroccio di Lapo degli Alberti, (4) the *libro dell'asse de' mali debitori*, and (5) the *libro di ricordanze*, or memorandum, of Bartolomeo di Caroccio. None of these five account books has come down to us without missing folios, but Sapori publishes all that is extant. It is needless to say that the texts are edited with his usual care, competence, and accuracy. The general index has more than fifty pages and serves also as a glossary. The many cross-references will greatly facilitate consultation. In his introduction, Sapori describes the Alberti manuscripts and points out their significance as historical documents, but without attempting an exhaustive interpretation, which is not the task of an editor, anyhow. The preface is provided by Luigi Einaudi, former President of the Italian Republic, and praises with reason the editor's high standards of scholarship. There is also a well-deserved word of appreciation for Signorina Giuliana Sapori who helped her father in checking the transcription. "I trust," Einaudi declares, "the trained eyes of a father and his daughter much more

[47] *Ibid.*, p. 265.

[48] *Ibid.*, p. 131. The son, Lapo, wrote opinions on the morality of paying interest on the public debt.

than the often ill-coordinated teamwork of modern research staffs."

From the point of view of economic and business history, numbers one and three are the most important and the most extensive of the surviving fragments. Number two is chiefly concerned with the shares of Duccio and Alberto in the estate of their father Lapo who died in 1319, but whose business investments and landed property remained undivided among his sons until 1334. Most of the entries relate to this division, but there are a few about later purchases of city property, namely in the Borgo Santa Croce and vicinity where the Alberti clan had its palaces and headquarters. The *ricordanze* or memoranda of Bartolomeo di Caroccio (number five) are very brief and also refer exclusively to purchases of real estate, farms (*poderi*), and farmland (*pezze di terra*).

Number four, as the name suggests, is a list of bad debts that were assigned to Caroccio di Lapo when his partnership with his cousin Jacopo di Alberto was liquidated and dissolved on November 17, 1346.[49] Some of the uncollectible items date back to 1301, and the list shows that the slow accumulation of aged accounts was one of the most serious dangers which threatened to sap the strength of medieval companies like that of the Alberti. Several of the delinquent debtors were French knights who had been in the retinue of the expelled Duke of Athens: they never repaid a single penny.[50]

The list includes the claims of the Alberti against the Bardi Company which had been adjudged bankrupt on April 16, 1346. By May 1st, 1347, the receivers had already paid a dividend of 6*s*. 3*d*. in the pound on outstanding claims, so that the amount due to the Alberti was reduced from £2,182 9*s*. *affiorino* to £1,500 8*s*. 9*d*.[51] After some further adjustments, the share of Caroccio or rather that of his heirs – he died on July 23, 1347 – was finally put at £778 *aff*. In part settlement of this claim, they chose to accept an assignment on the English Exchequer to the amount of £534 17*s*. 6 *d*. *aff*. or £49 3*s*. 8*d*. sterling at the rate of 32 sterlings per florin.[52] That they were able to collect anything seems highly improbable.

[49] *Alberti*, p. 281.
[50] *Ibid*., p. 291.
[51] *Ibid*., pp. 294–295.

	£	*s*.	*d*.	*aff*.
Total claim of the Alberti	2,182	9	0	
Deduct: 6*s*. 3*d*. in the pound or 31.25%	682	0	3	
Balance due	1,500	8	9	

[52] This equation has been checked and found correct to the penny. The

The only other item of interest among the bad debts is a claim on some Catalan merchants with whom the Alberti correspondents in Constantinople had contracted a *cambium nauticum* – a form of sea loan – involving an advance of 500 perpers, Byzantine currency, secured by a cargo of alum, and a repayment of £425, Genoese currency, to be made in Majorca upon safe arrival of this shipment.[53] In order to defraud their creditors, the dishonest Catalans deliberately wrecked the ship which supposedly carried alum, but which actually had none aboard and was sailing in ballast.[54] The Alberti obtained judgment against the swindlers, but in all probability to no avail.

The *libro piccolo dell'asse*, the first and the most complete of the extant fragments, was the *libro segreto* of Alberto di Jacopo degli Alberti del Giudice & Co. In the Florentine mercantile and banking companies the *libro segreto* was used to record vital and confidential information to which partners only should have access. For this reason it was usually kept by the principal or managing partner himself and contained the accounts relating to the shares of the partners in the capital, to any investments in addition to their quotas, to the distribution of profits and losses, and to the salaries of branch managers and factors, or employees. Sometimes the *libro segretto* also harbored the accounts of prominent depositors, such as princes, condottieri, and high church dignitaries. In the case of the Alberti, the *libro piccolo dell'asse* is interesting in that it contains a dozen financial statements – I deliberately avoid using the term "balance sheets" – which cover a period of nearly thirty years, from 1302 to 1329, when the two major partners Alberto di Jacopo and his brother Neri died within a few months of each other.

Since no account book of the Alberti Company for the period from 1329 to 1343 has survived, we have to rely for information on the private ledger of one of the partners, Caroccio di Lapo (died 1347). This is number three of the fragments edited by Professor

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checking of medieval computations is not difficult, if one knows how to work with pounds, shillings, and pence and to apply the chain rule (in French: *règle conjointe*). For example

? sterlings = £534 17*s*. 6*d*. *aff*.
£29 *aff*. = 20 florins
1 florin = 32 sterlings

The result is £49 3*s*. 8*d*. sterling or 11,804 sterlings and is obtained by dividing 29 into 640 times 534.875.

[53] The *cambium maritimum* was a sea loan with this difference that it was repayable in another currency.

[54] *Alberti*, p. 288.

Sapori. Caroccio di Lapo kept a careful record of his business investments and the profits allotted to him. Although incomplete for the concern as a whole, these data enable us, nevertheless, to follow the vicissitudes of the Alberti Company.

The latter successfully weathered the storm which engulfed its three great rivals: the Peruzzi (failed October 1343), the Acciaiuoli (failed at about the same time), and the Bardi (bankrupt January 1346). Throughout the period from 1329 to 1343, the partners received a fair return on their investment, more generous in some years than in others. The private ledger of Caroccio also reveals that he acquired a great deal of landed property, some of it from the *sindachi* or receivers of the bankrupt Peruzzi.[55] Most of this land was located at Legnaia a Monticelli, at the very gates of Florence, and in the region of Figline Valdarno and Castelnuovo, up the Arno river in the direction of Arezzo. Besides farms, the account book of Caroccio lists fields, orchards, vineyards, and olive groves.

After Messer Agnolo di Neri left the headship of the firm in 1343, Caroccio went into partnership with his first cousin Jacopo d'Alberto. Probably they did not get along, and the two partners separated in 1345. On July 17, 1347, Caroccio formed his own company with himself and his three sons as partners.[56] From then on, there existed two rival Alberti companies: the "Alberti antichi," as the firm headed by Jacopo d'Alberto, of the elder branch, is called in the papers of the papal treasury, and the "Alberti nuovi," by which name the same records designate the competing company founded by Caroccio di Lapo.[57] Until March 25, 1348, this firm was styled "Caroccio degli Alberti & Co." It then changed its style to "Jacopo e Bartolomeo di Caroccio degli Alberti & Co." and, in 1350, to "Bartolomeo di Caroccio degli Alberti & Co."[58] References to the Alberti nuovi still occur in 1375 in the records of the papal treasury.[59]

The Alberti nuovi never were as successful as the Alberti antichi who, towards the end of the fourteenth century, became the favorite bankers of the papacy and, for a few years, the largest mercantile

[55] *Ibid.*, pp. 180, 186–188, 199–201, 203, and 249.

[56] *Ibid.*, pp. 213 and 225. The articles of association give February 1, 1346, as the founding date, but operations did not start until July, 1347.

[57] Yves Renouard, *Recherches sur les compagnies commerciales et bancaires utilisées par les papes d'Avignon avant le Grand Schisme* (Paris, 1942), pp. 29–39 and *Idem*, *Les relations des papes d'Avignon et des compagnies commerciales et bancaires de 1316 à 1378*, "Bibliothèque des Ecoles françaises d'Athènes et de Rome," Vol. 151 (Paris, 1941), *passim*.

[58] *Alberti*, p. xxvii, and *Studi*, p. 983.

[59] Renouard, *Recherches*, p. 38.

company in western Europe. They had branches in Avignon, Barcelona, Barletta, Bologna, Bruges, Genoa, London, Naples, Paris, Perugia, and Venice.[60] Where they had no branches, they were probably represented by correspondents. Around 1372 another split occurred, this time within the Alberti antichi, and the two cousins Niccolò di Jacopo d'Alberto and Benedetto di Nerozzo d'Alberto parted from each other and established separate firms.[61]

By 1400, the Francesco Datini records disclose, there were several distinct Alberti companies engaged in international trade and foreign banking. In Bruges alone, there were at least three.[62] The most powerful was apparently a partnership headed by two brothers, Diamante and Altobianco degli Alberti, the sons of Niccolò. Consequently this is the continuation of the company founded by the latter. The second firm called itself Ricciardo degli Alberti & Co. As Ricciardo was the son of Benedetto, we have here the rival offshoot of the Alberti antichi. Probably Lorenzo, the father of Leon Battista, owned a share in this concern, since he was a younger brother of Ricciardo. Finally there existed in Bruges a third Alberti company, that of Alberto and Bernardo. It represented still another branch of the Alberti who, being in exile, had gone into business as the only way of making a decent living in foreign countries. In Barcelona, around 1400, there was a Niccolaio degli Alberti in partnership with a Filippozzo Soldani; it seems that he was in some way connected with the firm of Diamante and Altobianco. Perhaps he was their brother, although there also was a cousin of the same name.

As the Alberti family branched out, it could not be expected that its members would stay together despite their strong loyalty to the *casata* or the ties of a common ancestry. The need to earn a living inevitably caused dissatisfied individuals – those eager to forge ahead or those disappointed in their efforts to secure a larger share of the profits – to break away and to organize competing firms. It was a congenital weakness of the system of family partnerships that blood ties lost their strength after two or three generations. As a result, a struggle for control would develop between different branches of the same family: it was often fatal to the continued

[60] *Ibid.*, p. 36.

[61] *Idem*, "Le compagnie commerciali fiorentine del Trecento," *Archivio storico italiano*, Vol. 96 (1938), p. 53.

[62] de Roover, *Money, Banking, and Credit*, p. 30.

existence of a single family partnership. The case of the Alberti is a good illustration, but there are others, among them the Medici.

V

According to Professor Sapori, the Alberti account books are not as well kept as those of the Peruzzi Company and do not reach the same high level of accuracy and technical proficiency.[63] The bookkeeper of the Alberti, more frequently than the one of the Peruzzi, rounds off figures in order to simplify computations and to avoid minute fractions. This procedure, of course, involves some small errors in calculating interest or in allocating profits. From the Alberti account books, however, one cannot adduce any evidence which would lend support to Werner Sombart's contention that medieval bookkeepers were grossly inefficient and inept at simple arithmetic. Without exception the errors are so insignificant that they scarcely affect results.

With respect to method, the Alberti account books are not much more advanced than those of the thirteenth century. Accounts are not yet presented in bilateral form, that is, debit and credit side by side either on two pages facing each other or in two columns on the same page. In the Alberti ledgers, one still finds the paragraph form: after an initial debit or credit entry, some space is left blank to write in additional items, such as interest, and to indicate how the settlement is made. If the first entry is a payable, it invariably begins with the words *dè avere* (he must have) and the formula *avegli dato* (we have given him) is used to show how the debt was discharged. If, on the contrary, the initial entry of an account is a debit or a receivable, it starts with *dè dare* (he owes, literally "he must give"), and the items relating to payments received are marked off by the standard expression *ànne dato* (he has given). Although the Peruzzi account books are not yet in bilateral form, they show some progress over those of the Alberti in that all debits are grouped in the front half of the ledger and all credits in the rear. This arrangement makes it somewhat awkward to balance and to close an account, but it avoids possible confusion by separating clearly debits from credits.

In a recent book on the history of accounting, Professor Federigo Melis expresses the opinion that the Alberti accounts as well as those of the Peruzzi are kept according to all the "canons of

[63] *Alberti*, p. lix.

double entry bookkeeping." [64] Although I have serious doubts, he may possibly be right about the Peruzzi, but he is certainly wrong about the Alberti. I grant that the bilateral or Venetian form of accounts with the debit right next to the credit is not an essential characteristic of double entry.[65] Therefore, the fact that the accounts of the Alberti are still in paragraph form, with the debit beneath the credit or vice versa, is not conclusive evidence one way or the other. However, there is no double entry unless other requirements are met. For one thing, it is essential that each transaction be recorded twice, once on the debit side and once on the credit side. This rule is not observed throughout in the Alberti account books and careful examination reveals that there are many debit entries without a corresponding credit, or vice versa. In order to have double entry, it is also necessary that there be an integrated system of accounts to record operating results as well as changes in the composition of assets and liabilities. This is not the case with the *libro segreto* of the Alberti Company. At the end of a fiscal period, profits are determined by deducting liabilities and the partners' initial investment from total assets. Provision is also made for accrued salaries in order to arrive at the amount of net earnings available for distribution among the partners. While this procedure is correct and betrays a high level of technical skill, it does not prove the existence of double entry. On the contrary, the lack of any accounts for expenses and operating results makes it impossible to arrive at a balance. Consequently the Alberti account books do not meet the test and I conclude that they are not kept in double entry, although they denote a rather high stage of development leading gradually to the introduction of this method.

VI

Professor Sapori, in his Introduction, gives statistical data on the capital structure of the Alberti Company and the allocation of profits among the partners from October 1, 1302, to March 25, 1348.[66] His table is prepared on the basis of the provisions of the partnership agreement of January 1, 1323, the text of which is given in the *libro segreto*. Apparently he assumes that these provisions

[64] Federigo Melis, *Storia della Ragioneria* (Bologna: Dott. Cesare Zuffi, 1950), p. 494.

[65] This point is also granted by another specialist: Tommaso Zerbi, *Le origini della partita doppia* (Milan, 1952), p. 50.

[66] *Alberti*, pp. xxix–xxxiii, and *Studi*, pp. 985–991.

were in effect prior to 1323 and continued to set the pattern for later contracts. In going through the Alberti account books carefully, I have come to the conclusion that this assumption is correct only from 1323 onward, but does not apply to the period before 1323. As a matter of fact, the articles of 1323, far from continuing existing arrangements, brought about important changes in the capital structure and the division of profits. Consequently Professor Sapori's figures, while accurate after 1323, need revision up to this date.

The agreement of 1323 set up a *corpo*, or nominal capital, of £25,000 *affiorino* divided into twenty-five shares of £1,000 *aff.* each. Of these twenty-five shares, eleven shares were allotted to Alberto di Jacopo degli Alberti del Giudice and his three sons, Jacopo, Nerozzo, and Francesco; four to Neri, Alberto's brother; and ten to Caroccio and Duccio, the two sons of the late Lapo, the third of the Alberti brothers.[67] In accordance with the articles of association, profits as well as losses were to be divided among the partners in proportion to their shares. The articles further provided that the books were to be closed every two years in order to determine profit or loss and to divide it among the partners. This provision seems to have been carried out, since the *libro segreto* contains statements for 1325, 1327, and 1329 when the record ends. No article determines what happened to a partner who failed to supply his full quota of the *corpo*, but the *libro segreto* reveals in several instances that such a partner was penalized and charged interest at 8 per cent a year on the deficiency.[68] On the other hand, a partner who invested additional funds *fuori del corpo*, or beyond his quota in the *corpo*, was entitled to a return of 8 per cent on this surplus.[69]

Similar provisions are found in the partnership agreements of the Peruzzi Company, and it is thus understandable that Professor Sapori considered such an arrangement as typical. He was led to assume that, already before 1323, the Alberti Company had a *corpo*,

[67] The text of this contract is given in the *libro segreto* (*Alberti*, pp. 28–29).

[68] For instance, Neri di Jacopo who had been remiss in paying up his quota of £4,000 *aff.* was charged as much as £238 *aff.* for interest when the books were closed on August 15, 1325 (*Alberti*, p. 89). Two years later, £236 *aff.* were written to the debit of his account for the same reason (*Alberti*, p. 91). In November, 1329, Neri having died in 1328, interest at 8 per cent per annum was charged to his sons, Agnolo and Francesco, who had overdrawn like their father (*Alberti*, p. 93).

[69] See, for example, the account of Caroccio di Lapo who, on November 1, 1327, received interest at the rate of 8 per cent on earnings reinvested in 1325 (*Alberti*, p. 31).

or fixed capital, and a *sopraccorpo*, or surplus, on which interest was paid. However, careful investigation does not substantiate such an assumption. On the contrary, it shows that the procedure followed in dividing the profits was entirely different before and after 1323 and that a fixed capital or *corpo* was not set up until that year.

No mention of a *corpo* is found in the partnership agreement of January 1, 1308. The text is not very clear, but it states that the partners were expected to invest all their *mobile*, or available funds, in the company without fixing any specific amount.[70] On this investment they were entitled to receive a return of 8 per cent, if earned. Remaining or extra profits were then to be divided according to the following ratio: three-tenths to each of the three Alberti brothers and one-tenth to Jacopo, the son of Alberto, the eldest of the brothers. Between 1302 and 1323, the allocation of surplus profits – beyond the 8 per cent of regular dividend – was changed several times, usually at each renewal of the partnership agreement.[71]

Although the articles of 1308 are rather vague, the entries in the account book confirm that the partners received first 8 per cent on *total* investment, or more precisely on the credit balance at the beginning of each year, and next a share in the remaining profits according to a predetermined ratio which, as pointed out, varied in the course of time. Conclusive evidence is given in Table 4 which is an account with running balances of the principal partner, Alberto di Jacopo degli Alberti.[72] It extends over a period of three years, from January 1, 1307 to January 1, 1310, and shows how the regular dividend of 8 per cent was computed each year on the *total* credit balance on January 1. Since the essential figures of this table correspond to those of the *libro segreto*, it is impossible that a different

[70] The word *mobile* probably refers to any funds not yet tied up in real estate and, consequently, available for investment in business.

[71] From 1302 to 1304, surplus profits were divided on the following basis: three-elevenths to each of the three Alberti brothers and one-eleventh to each of the two outsiders. When the latter withdrew, surplus profits were for a while divided equally among the three brothers. This system was changed again in 1307 or 1308 when Jacopo, the son of Alberto, joined the partnership, and the above ratios were adopted. They remained in force for several years, at least until 1315. In 1319, the death of Lapo, the first of the three brothers to die, brought about another reshuffling of the shares. A last adjustment was made in 1321 before the complete overhaul of the system of profit distribution in 1323.

[72] I have prepared similar tables for the two other brothers: they show the same results.

TABLE 4

Analysis of the Account of Alberto di Jacopo Degli Alberti del Giudice from January 1, 1307, to January 1, 1310

	£	s.	d.	aff.
Credit balance on January 1, 1307	19,628	16	0	Cr.
Interest 8%, one year, on £19,628 *aff.*	1,570	5	0	Cr.
Subtotal	21,199	1	0	Cr.
Deduct: drawings during the year 1307	927	15	4	Dr.
Credit balance on January 1, 1308	20,271	5	8	Cr.
Add: interest 8%, one year, on £20,271 *aff.*	1,621	14	0	Cr.
Subtotal	21,892	19	8	Cr.
Deduct: drawings during the year 1308	2,595	10	3	Dr.
Credit balance on January 1, 1309	19,297	9	5	Cr.
Add:				
Interest 8%, one year, on £19,297	1,543	16	0	Cr.
Share of Alberto in surplus profits (3/10)	3,773	5	0	Cr.
Share of his son, Jacopo d'Alberto (1/10)	1,257	15	0	Cr.
Subtotal	25,872	5	5	Cr.
Deduct: drawings during the year 1309	9,542	11	6	Dr.
Credit balance on January 1, 1310	16,329	13	11	Cr.

Source: *I libri degli Alberti del Giudice*, Armando Sapori, ed. (Milan, 1952), pp. 4–5 and 8.

procedure might have been followed by the Alberti.[73] There can, therefore, be no doubt that profits from 1302 to 1323 were distributed according to the system described above and not according to the one established by the partnership agreement of 1323. Moreover, it is not until then that, in the *libro segreto*, separate accounts were opened for the share of each partner in the *corpo*.[74]

This change in procedure is indicative of a more important change in policy. What was the reason for this adjustment? Presumably its

[73] The account and the table do not correspond exactly. Thus the account in the *libro segreto* gives only £3,165 10*s.* *aff.* as the amount credited for interest during two years, 1308 and 1309, without breaking down this total. The table shows how this total is made up and how interest was actually computed:

	£	s.	d.	aff.
Interest for 1308, 8 per cent on £20,271	1,621	14	0	
Interest for 1309, 8 per cent on £19,297	1,543	16	0	
Total	3,165	10	0	

Since the two totals are identical, computations must be considered as correct.

[74] *Alberti*, pp. 29–30.

purpose was to force one of the partners to maintain a suitable equity in the business. The *libro segreto* discloses that, during the period from 1302 to 1323, Neri was constantly drawing money out, so that his equity was dwindling. The prevailing system of profit distribution permitted him to share in surplus profits without keeping adequate funds invested in the company. The partnership agreement of 1323 put an end to this possibility by fixing Neri's share in the *corpo*, or capital, at £4,000 *affiorino*. We know that Neri – and his sons after his death – was charged interest as a penalty for his inability to fill this quota (see Appendix, statements Nos. 8, 9, and 10).[75] The new system introduced in 1323 was thus only partly successful in discouraging a partner from letting his equity fall below his assigned share in the *corpo* or capital.

The system of profit distribution used by the Alberti from 1302 to 1323 is by no means confined to them. It was also used by Florentine companies in the thirteenth century, for example, by that of Sassetto Azzi. In 1279, Gentile de'Sassetti, who had £2,583 12*s*. *di piccioli* invested in this company, received a return of 8 per cent (*prode*), or £206 13*s*. *di piccioli*, plus a share in the surplus profits (*guadagno*) of £720 *di piccioli*.[76] The case is somewhat similar to that of participating preferred stock entitled to a regular dividend of 8 per cent, let us say, and then to an extra-dividend, if there are any excess profits after paying a regular dividend to the common stock. Sometimes the provisions of partnership agreements regarding the distribution of profits or losses were quite complicated. In the case of the Albizzi Company, the contract of 1347 first created a *corpo* of £10,000 *affiorino* and specified how much each partner was expected to contribute.[77] It then stipulated that half the profits were to be shared in proportion to investment, but without exceeding a return of 12 per cent. The other half of the profits was then to be divided into twenty-two shares of which one of the five partners was allotted eleven shares, three partners each three shares, and the fifth partner only two shares. Losses, if any, were to be apportioned according to the same system. As these examples show, there were

[75] *Alberti*, pp. 89, 91, and 93.

[76] Arrigo Castellani, ed., *Nuovi testi fiorentini del Dugento* (Florence, 1952), pp. 296, 306, and 325.

[77] Newberry Library (Chicago, Illinois), MS + 27 (52–2267), fol. 34. This is the private account book of Pepo d'Antonio di Lando degli Albizzi, one of the partners of the company. These partners were a father and his four sons. Three of them, including the father, died from the plague in 1348: only Pepo and Jacopo d'Antonio survived. This partnership was quite successful: in 1345, it secured a return of nearly 33 per cent on investment.

no hard and fast rules about the distribution of profits in the Florentine companies. As today, such rules depended upon the circumstances of each particular case and varied necessarily from one partnership to another.

VII

In Professor Sapori's Introduction, an attempt is made to determine the return on invested capital on the basis of the financial statements found in the *libro segreto* (1302–1329) of the Alberti Company and of the data found in the private account book (1333–1348) of Caroccio di Lapo.[78] The results of such attempts, of course, depend upon the method followed in computing the rate of return. Different methods will yield different results. Professor Sapori's figures, for the period from 1302 to 1323 at least, are open to challenge, since they are based on the assumed existence of a *corpo* which is much less than the owners' equity. He thus tends to obtain a rate of return which is too high, in my opinion. For the period under consideration, the most sensible way, it seems, is to figure the ratio of profits to equity, to adjust this ratio to a year's average, and then to add 8 per cent, since the partners were entitled to 8 per cent prior to any division of profits. In following this method, I obtain for the period from September 20, 1304, to January 1, 1307, covered by the second financial statement, a ratio of profits to equity of 26 per cent for 27 months, which corresponds to 11.4 per cent a year (Appendix, statement No. 2). By adding 8 per cent, I get a return of 19.4 per cent, whereas Professor Sapori's figure is 51.86 per cent, which is, in my opinion, outside the range of probability. The next statement was not drawn up until three years later. It shows that the rate of profits to equity was about 24 per cent, or an average per year of 8 per cent (Appendix, statement No. 3). After adding the usual 8 per cent for the regular dividend, I find a rate of return of 16 per cent in contrast to Professor Sapori's 41.9 per cent.

From 1310 to 1319, the Alberti Company operated at a loss and barely avoided going into bankruptcy. With negative results, there is not much point in figuring out profit ratios. Perhaps it should be observed that regular dividend payments, that is, of the 8 per cent, were interrupted only during the worst of the crisis. Between 1315 and 1319, there actually was a slight profit, since losses appeared only after paying 8 per cent to the partners.

[78] *Alberti*, pp. xxix–xxxiii.

After 1319 business picked up again. In 1321, the Alberti partners were able to divide a handsome profit after receiving their customary 8 per cent. According to my figures, the ratio of profits to equity was about 12.7 per cent for two years or 6.35 per cent for one year (Appendix, statement No. 6). With the addition of 8 per cent, the rate of return was consequently 14.3 per cent, which is higher than Sapori's figure of 10.4 per cent. In the next year and a half, earnings declined somewhat and the rate of return, including the usual 8 per cent, dropped to 9.6 per cent on equity. Sapori gives 2.96 per cent, which is lower than my figure because he does not include the normal return of 8 per cent. On the whole, Professor Sapori's method results in rates of return which are either higher or lower than mine and are subject to much greater fluctuations.

The partnership agreement of 1323, the reader will recall, established a *corpo*, or nominal capital, of £25,000 *affiorino*.[79] From then on, Professor Sapori's figures acquire more meaning. Nevertheless, it should perhaps be pointed out that capital and equity do not necessarily correspond. In the course of time, equity is likely to rise or fall in relation to capital because of the accumulation of profits or losses, not to mention withdrawals or additional deposits. Then there is the legal problem whether or not deposits *fuori del corpo*, or outside the capital, should be regarded as part of the equity. Perhaps these legal distinctions should be disregarded and perhaps not. In any case, Professor Sapori chose to work with the *corpo*, or nominal capital, and we may as well accept his decision. Any other choice might have been just as arbitrary. According to his computations, the average rate of return was 12.5 per cent from January 1, 1323, to August 15, 1325, and 20 per cent from August 15, 1325, to November 1, 1329. Using a different method, I obtain 14.8 per cent and 22.6 per cent, respectively (Appendix, statements Nos. 8 and 9). The two sets of figures are not far apart. For the two years, from November 1, 1327, to November 1, 1329, Professor Sapori does not give any data, but I obtain an average return of 16.8 per cent by using his method and 13.5 per cent by using mine.

In 1323, when the *corpo* of £25,000 *affiorino* was created, the owners' equity really amounted to £30,465 12*s.* 1*d.* *aff.* (Table 5), because the investment of several partners exceeded their quotas.

[79] This amount of £25,000 *aff.* corresponds to about $69,000 in gold at the rate of $2.76 per pound *affiorino*. Let us not forget, however, that purchasing power was much greater in 1323 than in 1957.

TABLE 5

Composition of the Equity, *CORPO* and *SOPRACCORPO* Combined, of the Alberti Company on January 1, 1323

Corpo or Nominal Capital:				£	s.	d.	*aff.*
Alberto di Messer Jacopo del Giudice				8,000	0	0	
Neri di Messer Jacopo, his brother				4,000	0	0	
Caroccio and Duccio di Lapo, their nephews				10,000	0	0	
Jacopo, Alberto's son				1,000	0	0	
Nerozzo, Alberto's second son				1,000	0	0	
Francesco, Alberto's third son				1,000	0	0	
Total of the *corpo*				25,000	0	0	
Add: deposits *fuori del corpo*, or outside the capital							
	£	s.	d.				
Alberto di Jacopo	2,138	4	11				
Jacopo d'Alberto	1,816	10	6				
Caroccio and Duccio	2,361	9	9				
Subtotal	6,316	5	2				
Deduct: debit balance of Neri	850	13	1				
Total of *sopraccorpo*				5,465	12	1	
Total equity				30,465	12	1	

Source: *I libri degli Alberti del Giudice*, Armando Sapori, ed. (Milan, 1952), pp. 23, 24, 25 and 29–30.

Only Neri di Jacopo was unable to put up the required sum. In order to enable him to do so, his brother Alberto and his nephews Caroccio and Duccio purchased for £1,450 *aff.* Neri's third share in a farm (*podere*) located in Legnaia at the gates of Florence.[80] This transaction was to no avail: soon Neri relapsed into his old habit of overdrawing, thereby impoverishing himself more and more.

The entries in the *libro segreto* come abruptly to an end in 1329 with the death of Alberto di Jacopo degli Alberti del Giudice. There follows a gap of several years in the records, since the private ledger of Caroccio di Lapo, Alberto's nephew, does not contain information antedating 1333. At that time, the share of Lapo's sons, that is, Caroccio and his two brothers, in the owners' equity amounted to £32,608 18*s.* 6*d.* *aff.*, of which £22,300 *aff.* were part of the *corpo* and £10,308 18*s.* 6*d.*, representing the balance, were placed on deposit *fuori del corpo*, or outside the *corpo*.[81] Apparently, the system of dividing earnings had been changed again between 1329

[80] *Alberti*, pp. 23, 24, and 25.
[81] *Ibid.*, p. 165.

and 1333. Part of them were divided as before in proportion to investment in the *corpo*, but the remainder was apportioned on a different basis in order to remunerate the partners for their "industry," that is, for their services. Presumably partners who took an active part in the management received a higher share than those who were merely interested in what we would call dividends.[82] Unfortunately the private records of Caroccio do not give any clue regarding the operation of this new system. They tell us, for example, that in 1340 Caroccio came in for six shares, but this information is of little use, since we do not know the total number of shares and their distribution among the partners.[83]

According to Professor Sapori, the period from 1333 to 1348 was less lucrative than the earlier one. Rates of return varied from a minimum of 3.65 per cent to a maximum of 14.18 per cent.[84] His figures, however, include only what the partners received on investment and not what they collected besides in reward for their services. The question may be raised whether this remuneration should be included or excluded.

Summaries of the balance sheets or rather the financial statements contained in the *libro segreto* of the Alberti Company are published in the Appendix. They cover a period extending from 1302 to 1329. According to these data, the Alberti Company prospered from 1302 to 1310 and from 1319 to 1329. In the intervening time, it faced a crisis which nearly wrecked the firm. The statements also reveal great changes in business prospects from year to year. Contrary to a widespread belief, the Middle Ages were not static, but as dynamic as modern times.

The arrangements of the statements may be somewhat unfamiliar to a modern accountant. This defect is due to the state of the source material: it is sometimes difficult to know what certain items represent. Moreover, medieval bookkeepers often did queer things. Perhaps they had good reasons for doing what they did, but we no longer understand their practices because we have a different point of view and accounting has progressed since the Middle Ages.

It would be dangerous, of course, to draw general conclusions from the figures presented here about the profitableness of business

[82] This system was probably introduced in order to favor Messer Agnolo, the head of the firm, who, being Neri's son, had a very small equity in the business. *Alberti*, pp. 169, 173, and 182.

[83] *Alberti*, p. 173. However, in 1345, Caroccio was entitled to five shares out of a total of eighteen.

[84] *Alberti*, pp. xxxii–xxxiii, and *Studi*, pp. 990–991.

or the productivity of capital in the Middle Ages. Data concerning a *single* firm are of little value for such a purpose. Furthermore, how is it possible to separate return on investment from remuneration for management except in an arbitrary way? In any case, the earnings of the Alberti Company were not excessive and never exceeded a maximum of 22.6 per cent on invested capital. Besides, there were losses in several years to compensate for the profits. Regarding earning capacity, the only statement which it is probably safe to make is that the Alberti, like other medieval merchants, were confronted with great risks and had to be clever managers in order to avoid losses and get a fair return on investment. As an old proverb says, it is always easier to lose than to gain.

VIII

Account books, of course, are rather disappointing, if one looks for information on business policy. Nevertheless, skillful use of such material makes it possible to discover a few clues.

As already mentioned the original partners of the Alberti Company were three brothers (Alberto, Neri, and Lapo) and two outsiders (Spiglia Ruggerini and Tieri di Messer Ridolfo). Most likely these outsiders were taken into the firm to act as advisors, since the Alberti brothers, in 1302, were still young and inexperienced. Before this partnership was terminated in September, 1304, Spiglia Ruggerini withdrew in anger, possibly because his advice was disregarded.[85] Tieri di Messer Ridolfo, on the contrary, stayed on until November, 1307, but only in an advisory capacity and no longer as a partner.[86] He was for a time in charge of the Venetian branch; perhaps he helped to organize it. For these services he was granted an exceptional allowance of £500 *aff*.

From then on, leadership was assumed by Alberto di Jacopo, the eldest of the three brothers, and it seems that it was never challenged by his partners. Perhaps he never took a major decision without first consulting them. Nevertheless the records give the impression that it was unquestionably Alberto who ran the business. Lapo, as we know, also took an active part in the management, but in a subordinate position.[87] As for Neri, he was probably carried along more as a liability than as an asset. Far from making

[85] *Alberti*, p. xxxiv, and *Studi*, pp. 992–993.
[86] *Alberti*, p. 4.
[87] *Ibid.*, p. 37.

any useful contribution, he created a problem by living beyond his means and by dipping steadily into his equity.

When Alberto died in 1328 or 1329, he was nevertheless succeeded as head of the firm by Neri's son, Messer Agnolo. It is difficult to know whether the latter was chosen for his ability or as a compromise. In any case, as long as he remained at the head of the firm, from 1329 to 1343, he prevented any serious rift among the partners. Within three years from his retirement, the old family business fell apart and broke up into rival firms.

As stated above, the balance sheet of January 1, 1310, was the last to show profits until business conditions improved after 1315. These were years of warfare because of the Italian expedition of Emperor Henry VII (reigned 1308–1313) and the attacks on Florence (1314–1315) of Uguccione della Faggiuola who had made himself lord of Pisa. By cutting trade routes to France, these campaigns certainly interfered with the normal conduct of business.[88] Besides, as we have seen, the Alberti, like other cloth dealers, were hard hit by the rise of a native woolen industry. Professor Sapori is full of praise for the way in which the Alberti met these difficulties and managed to preserve their credit. Their success was due, according to him, to the self-sacrificing spirit of the partners.[89] This may be true to a large extent, and there is no doubt that the Alberti took energetic measures to marshal their resources.

One of the first victims of the crisis was Neri: as early as 1310, he was forced to rebuild his depleted equity and to turn over to the firm £10,000 *aff.* in landed property.[90] Next, since there were losses instead of profits, the partners had to forego from January 1, 1312, onward their usual return of 8 per cent on invested capital.[91] Payment of such a return was not resumed until 1316.[92] As these remedies were insufficient, the partners decided to pool all their property, including their landed estates. This measure extended even to a parcel of pearls, belonging privately to Alberto and Lapo, which were sold to raise much-needed cash. When the family property was redivided among the three brothers, each of them received £13,471 13*s.* 2*d.* *aff.* If the figures in the *libro segreto* can

[88] There were alternative routes which the Alberti seem to have used.
[89] *Alberti*, pp. xxxvii–xxxviii, and *Studi*, pp. 996–997.
[90] *Alberti*, p. 12.
[91] *Ibid.*, pp. 12–13.
[92] *Ibid.*, pp. 14–16.

be trusted, the crisis had reduced the fortune of the Alberti from £71,700 *aff*. to £40,415 *aff*., a loss of about 44 per cent.[93]

The partners were not the only ones who were asked to make sacrifices. Because of "bad times and wars," no interest was credited to depositors from January 1, 1312, to January 1, 1314.[94] In the Middle Ages, on account of the usury prohibition, interest on bank deposits was a gift and was not recoverable at law. Of course, banking houses hesitated to suspend interest payments because it might undermine confidence and induce depositors to ask for repayment of the principal, which, in a crisis, would make matters worse.

After 1319, business expanded and the family not only recovered its wealth, but increased it. In 1334, the heirs of Lapo alone, excluding consequently the other two branches of the family, were in possession of an estate appraised at about £37,400 *aff*. Most of this money was invested in the family business, and only slightly over 10 per cent was tied up in real estate (Table 6). Caroccio, the eldest of Lapo's three sons, received £11,795 *aff*. as his share in the inheritance.[95] In subsequent years, he used his earnings in business to purchase more land, and it seems that the other members of the family did the same.

TABLE 6

ESTATE OF CAROCCIO DI LAPO AND HIS BROTHERS IN APRIL 1334

How Invested	Pounds *affiorino*	Per Cent of Total
In the *corpo* of the Alberti Company	22,300	59.6
On deposit with the Alberti Company, *fuori del corpo* or as surplus	10,309	27.6
In real estate, chiefly farms (*poderi*)	4,785	12.8
Total	37,394	100.0

SOURCE: *I libri degli Alberti del Giudice*, Armando Sapori, ed., p. 166.

In the opening years of the fourteenth century, as we have seen, the Alberti were mainly geared to the cloth trade with Flanders and Champagne. After 1320, they seemed to have diversified their activities more and more by dealing also in wool, local cloth, spices,

[93] *Ibid.*, p. 14. £40,415 *aff*. corresponds to $111,545 at $2.76 per pound *affiorino*. This figure should be increased several times because of the difference in purchasing power.

[94] *Ibid.*, p. 120. See the account of Cione and More Bonsignori.

[95] *Ibid.*, p. 167.

and dyestuffs. Whether they added banking to this activity, the extant records do not reveal, but it is likely that they did. At any rate, the Alberti wisely refrained from becoming entangled in loans to princes.[96] Perhaps this policy explains why they survived without ever dishonoring their blazon with the stain of bankruptcy. At one time or another during the period from 1302 to 1348, the Alberti had branches or factors in Avignon, Barletta, Bologna, Constantinople, Flanders, Genoa, London, Majorca, Milan, Naples, and Venice. According to Professor Sapori's pertinent remark, the experience gained in operating a network of foreign branches gradually prepared the Alberti for their future role of papal bankers with international connections.[97]

On the whole, the Alberti were typical sedentary merchants. Merchants of this type throughout the half millenary of their dominance, roughly from 1300 to 1800, pursued the general policy of seeking diversification as a protection against high risks. Since they tried to manage their business from the countinghouse, their major problem was to control agents in distant places. The surviving records unfortunately do not disclose how the Alberti succeeded in solving this problem. Despite precautions to pick only reliable and capable men, they sometimes had disappointing experiences, as in the case of Filippo di Schiatta di Lippozzo who mismanaged the Barletta branch, diverted funds for his own use, and caused his employers to lose over £1,600 *aff*.[98]

IX

The partnership contract of 1308 starts with the formula "In the name of God and profit" (*A nome di Dio e guadangnio*).[99] The invocation at the head of the *libro segreto* is not quite as blunt, but expresses the same idea.[100] The same formula is found in the account books of the Pratese merchant, Francesco Datini (died 1410)[101] and as late as 1531 in a partnership contract concluded

[96] *Ibid.*, p. xxxviii, and *Studi*, p. 997.

[97] *Alberti*, p. xxv, and *Studi*, p. 981.

[98] *Alberti*, p. 254. This is a loss of about $4,400 at the present price of gold, but purchasing power was much greater. Perhaps, one should multiply this amount by ten, if not more.

[99] *Alberti*, p. 12. The complete formula reads as follows: "In the name of God and of profit which God will give for the benefit of soul and body."

[100] *Alberti*, p. 3.

[101] See the recent and excellent book by Iris Origo, *The Merchant of Prato* (New York, 1957), pp. vii–viii. This is intended to be a popular biography, but it is so well done that it has real scholarly value.

by the Medici-Tornaquinci whose records are at the Harvard Graduate School of Business Administration.[102] Its presence in fifteenth-century documents and later led some historians to believe that its use was a manifestation of the materialistic and pagan culture of the Italian Renaissance.[103] This explanation, however, does not fit in with more recent discoveries. The *libro piccolo dell'asse* of the Alberti Company dates from 1304. Moreover, the use of the formula "In the name of God and of profit" or something similar goes even further back, and several examples have recently been found in thirteenth-century account books, the earliest in 1253.[104] This is not yet the period of the Renaissance, but the golden age of Saint Thomas Aquinas (1226–1274), when scholastic philosophy and Christian ethics supposedly dominated every aspect of social life and were as yet uncontaminated by the worldliness of humanism.

The formula "In the name of God and of profit" may be shocking according to modern concepts. The question is whether it was as shocking to the man in the Middle Ages and whether he found it incongruous to associate the two. What was the attitude of the medieval moralists toward the merchant?

According to canon law, trade was regarded with distrust, because its practice imperiled the salvation of the soul, since merchants were commonly exposed to the temptation of greed, cheating, and usury, not to mention adultery if they were away from home for long periods, as was often the case with the traveling merchants of the early Middle Ages.[105] By the thirteenth century, however, a change in attitude is noticeable. While distrust does not entirely disappear, Thomas Aquinas recognizes that, since neither individuals nor countries are self-sufficient, it is God's will that they should barter or trade with each other. Trade, therefore, is not in itself an evil occupation provided that its prime purpose does not consist in indefinite accumulation of wealth. It becomes licit; moderate

[102] Raymond de Roover, "A Florentine Firm of Cloth Manufacturers," *Speculum*, Vol. XVI (1941), p. 5.

[103] See, for example, the comments of Kurt S. Gutkind on the slightly different formula "In the name of God and of good fortune" used by the historic Medici: *Cosimo dei Medici, Pater Patriae* (Oxford, 1938), p. 202.

[104] Castellani, ed., *Nuovi testi*, p. 207 (1253), p. 210 (1263), p. 213 (1262), p. 291 (1277), p. 303 (1280).

[105] *Corpus Juris Canonici, Decretum Gratiani*, canon *Qualitas Lucri*, Dist. V *De poenitentia*, c. 2. The subject of adultery is specifically mentioned by Saint Bernardine of Siena (1380–1444), *Quadragesimale De Evangelio Aeterno*, sermon 33, art. 2, cap. 9. The saint uses strong language and refers to merchants who, being separated from their wives in foreign lands, "defile themselves in filth with believers as well as with infidels."

profits can be justified, if the merchant plans (1) to support his household (*ad domus suae sustentationem*), (2) to aid the indigents (*ad subveniendum indigentibus*), or (3) to supply his country with needed commodities from abroad, and if he does not seek profits for profits' sake, but as a reward for his exertions.[106]

To be sure, merchants rarely lived up to this ideal, but at least they did not question the principle. The Alberti, too, made an endeavor to comply with religious precepts: in the balance sheets of 1325, 1327, and 1329, a certain amount is set aside for almsgiving prior to any allocation of profits to the partners (Appendix, statements Nos. 8, 9, and 10).[107] Perhaps this item should have been more generous; nevertheless, "the Lord's poor" were not forgotten.

Of course, it would be wrong to view the formula "In the name of God and of profits" as an expression of cynicism. In the Middle Ages, merchants might be sinners, but they were believers like the rest of the population which was not made up of Saints, either. In this respect the best evidence is furnished by the numerous wills which contain provisions for the restitution of usury and ill-gotten gains. Neither can the formula "In the name of God and of profits" be interpreted as a sign of materialism. It does not imply that profits became a goal in themselves. In the longer invocations which one often finds on the first page of account books, the true thought of the medieval merchants is clearly revealed. They pray the Lord to bless them with profits and to shield them against losses. At the same time they often ask Him to preserve them in good health and to protect them against illness. Usually they end up by beseeching the Lord to save their souls. In other words, our merchants expected that God would give them prosperity in this world and eternal bliss in the next. This is asking a great deal. But is it not human? The same aspirations are in evidence in John Browne's *The Marchants Avizo*, a manual first published in 1589.[108] Here, too, the merchant reveals himself as wanting the best of both worlds. Although the author, a merchant and a mayor of Bristol, was a Protestant, there is no perceptible change in moral outlook. If this is so, how can one still attribute the rise of capitalism to the rationalistic spirit fostered by the Reformation?

[106] Thomas Aquinas, *Summa theologica*, II, ii, qu. 77, art. 4, *corpus*.

[107] *Alberti*, pp. xxxvi, 78, 84 and 101. Cf. *Studi*, pp. 994–995.

[108] This manual was very recently republished: Patrick McGrath, ed., *The Marchants Avizo, I. B. Marchant, 1589*, "Harvard Graduate School of Business Administration, The Kress Library of Business and Economics," Publication No. 11 (Cambridge, Mass., 1957).

X

The economic and business historian is not a writer of fiction. He is necessarily limited by the state of his source material. In dealing with recent history, he may be overwhelmed by the size of the surviving records and his major problem may be to make a selection. Business archives of the medieval period, however, are likely to be fragmentary. Instead of a superabundance of records, there may be a real dearth, and the problem may be to squeeze every bit of information from the few documents that still exist. I know of only two exceptions: the Datini archives, which contain about 500 account books and some 150,000 business letters, and the Selfridge collection of Medici-Tornaquinci accounts and letter books in Baker Library, Harvard University. Although several historians have had access to both of these collections, they have barely been tapped and much remains to be done. In the case of the ruling Medici, the greatest merchant-bankers of the fifteenth century, the surviving records have so many gaps that the story will have to be pieced together from scattered sources.

With regard to the Alberti, only incomplete account books have escaped destruction. These are just a few scraps, but it is amazing how much it is possible to extract from material which, at first sight, promises to yield quantitative data only.

Despite the lapse of time, it is perhaps astounding that basic problems of policy and management remain virtually the same. Like the businessman today, the medieval merchant rarely enjoyed a well-entrenched monopoly position; his problem usually was to earn profits in the face of fierce competition and great risks. Ordinarily he controlled neither the prices at which he bought nor those at which he expected to sell. Moreover, market conditions were as changeable as the wind, and gluts often followed upon the heels of a period of brisk demand and high prices. Of course, the medieval merchant was not ignorant of forecasts, but the best forecasts were often belied by an unforeseen turn of events. For example, the sudden death of a ruler might in one day cut down the demand for colorful silks and velvets and put a premium on black cloth. As today, war was a great disturbing factor.

Managerial problems also were very much the same. Because of the slowness of communications, a great stumbling block was the control of agents abroad. As Leon Battista wrote in his book *Della famiglia*, "five out of six bankruptcies are due to defective

management and, in truth, one may assert that nothing improves a factor more than a stern employer and that nothing corrupts an agent more than lack of proper direction."[109] The Alberti, as we have seen, kept their factors well in hand. Even more notorious as a harsh and difficult employer is Francesco Datini: his subordinates did not dare transgress his orders and, as a result, he was highly successful in his business career.[110] On the other hand, it seems that a major cause of the downfall of the Medici bank lies in the fact that Francesco Sassetti, the general manager, relaxed his grip on the branch managers subject to his authority and that Lorenzo the Magnificent, the head of the firm, who understood little about business, relied too much on Sassetti's advice.

Another problem closely related to control is that of coordination. As we have explained, unified action saved the Alberti from impending doom. On the other hand, bickerings among the partners seem to have precipitated the crash in the case of the Peruzzi and Bardi companies. Conflicts among branches, unchecked by the central administration, also hampered the smooth operation of the Medici bank and made matters worse instead of better when trouble arose. Thus it seems that the internal problems of policy, management, and cooperation play a more important role than external factors in deciding the fate of business firms, whether it be in the past or in the present.

[109] Leon Battista Alberti, *Della Famiglia*, G. Mancini, ed., Bk. III (*Della Economia*), p. 192. By "economics" L. B. Alberti means, of course, household and business management, not political economy. The text is quoted by Sapori, *Alberti*, p. xlvii, and *Studi*, p. 1,009.

[110] This point is emphasized by Datini's biographer, Iris Origo, *op. cit.*, pp. 113, 116–117, and 148. Yet, Datini complained that he was sometimes betrayed and that his junior partners or branch managers did not always heed his advice (pp. 117, 125–126).

APPENDIX

Financial Statements of the Alberti Company from 1302 through 1329

1

October 1, 1302–September 20, 1304

No statement of assets and liabilities is available, only a statement indicating the division of profits among the partners.

		£	s.	d.	aff.
Spiglia Ruggerini	1 share	243	5	0	
Tieri di messer Ridolfo	1 share	332	9	0	
Alberto degli Alberti	3 shares	997	7	0	
Lapo, Alberto's brother	3 shares	997	7	0	
Neri, Alberto's brother	3 shares	997	7	0	
Total	11 shares	3,567	15	0	

Spiglia Ruggerini received something less than his rightful share, because he broke the contract and withdrew before the termination of the partnership agreement.

2

September 20, 1304–January 1, 1307

Assets

		£	s.	d.	aff.
Money and goods in the hands of factors:					
Flanders		23,490	0	0	
Apulia		9,164	0	0	
Venice		9,276	0	0	
Milan		1,433	18	0	
	Subtotal	43,363	18	0	
Other receivables		15,409	4	0	
Cash		783	0	0	
Goods in stock		3,503	0	0	
	Total	63,059	2	0	

Liabilities

	£	s.	d.	£	s.	d.	aff.
Payables				6,825	8	0	
Accrued wages on January 1, 1307				4,198	4	0	
Subtotal				11,023	12	0	
Owners' equity:							
Alberto degli Alberti	16,072	0	0				
Lapo, Alberto's brother	15,999	0	0				
Neri, Alberto's brother	9,293	14	0	41,364	14	0	
Subtotal				52,388	6	0	
Profits to be divided among the partners				10,670	8	0	
Total				63,058	14	0	

Division of Profits

		£	s.	d.	aff.
Alberto	1 share	3,556	16	0	
Lapo	1 share	3,556	16	0	
Neri	1 share	3,556	16	0	
Total	3 shares	10,670	8	0	

Important note: These are surplus profits after the partners had already received a return of 8 per cent on *total* capital invested. This system remained in force until January 1, 1323, inclusive.

Ratio of profits to equity: $\frac{10{,}670}{41{,}365} = 26$ per cent.

Average per year: 11.4 per cent.

3

January 1, 1307–January 1, 1310

Assets

	£	s.	d.	aff.
Money and goods in the hands of factors:				
Champagne	14,318	14	0	
Milan	13,308	16	0	
Apulia	4,930	13	0	
Genoa	2,096	14	9	
Flanders	1,667	10	0	
Subtotal	36,322	7	9	
Goods and other assets *in fondaco*	9,890	17	0	
Dyeing in charge of Lapo	3,822	15	0	
Receivables	13,654	0	10	
Miscellaneous	5,876	5	0	
Due from partners (drawings?)	12,377	2	0	
Total	81,943	7	7	

Liabilities

	£	s.	d.	£	s.	d.	aff.
Payables				10,503	4	3	
Accrued wages				7,042	5	9	
Subtotal				17,545	10	0	
Owners' equity:							
Alberto and his son Jacopo	20,841	5	0				
Lapo	20,908	15	0				
Neri	10,070	5	0	51,820	5	0	
Subtotal				69,365	15	0	
Profits to be divided among the partners				12,577	10	0	
Total				81,943	5	0	

Division of Profits

		£	s.	d.	aff.
Alberto di Jacopo	3 shares	3,773	5	0	
Lapo	3 shares	3,773	5	0	
Neri	3 shares	3,773	5	0	
Jacopo, Alberto's son	1 share	1,257	15	0	
Total	10 shares	12,577	10	0	

Ratio of profits to equity: $\frac{12{,}577.5}{51{,}820} = 24.1$ per cent.

Average per year: 8 per cent.

4

January 1, 1310–June 1, 1315

Assets

				£	s.	d.	aff.
Money and goods in the hands of factors:							
Champagne				20,051	0	0	
Venice				15,524	7	0	
Genoa				263	3	8	
Subtotal				35,838	10	8	
Dyeing establishment in charge of Lapo				469	14	3	
Goods and cash *in fondaco*				3,141	9	0	
Receivables				7,935	14	7	
Due from partners:							
	£	s.	d.				
collectively	8,593	10	4				
individually	9,077	17	6	17,671	7	10	
Real estate (farmland in Greti and Legnaia)				17,966	0	0	
Total assets				83,022	16	4	
Loss or deficit				1,582	10	0	
Total				84,605	6	4	

Liabilities

				£	s.	d.	aff.
Payables				13,791	9	0	
Due to partners *per merchatantia*				44,151	4	0	
Subtotal				57,942	13	0	
Owners' equity:							
	£	s.	d.				
Alberti and Neri jointly	21,290	13	0				
Lapo	5,372	0	0	26,662	13	0	
Total				84,605	6	0	

Note: Payment of the usual return of 8 per cent on invested capital was suspended from January 1, 1312, to June 1, 1315.

5

June 1, 1315–July 1, 1319

Assets

	£	s.	d.	aff.
Money and goods in charge of factors:				
Venice	19,240	7	10	
Verona	290	7	3	
Subtotal	19,530	15	1	

		£	s.	d.	aff.
Carried forward		19,530	15	1	
Receivables and consignments		12,873	17	2	
Goods in stock		8,275	2	0	
Cash on hand		4,822	17	0	
Real estate (one farm)		467	5	0	
	Total assets	45,969	16	3	
Loss		2,133	15	5	
	Total	48,103	11	8	

Liabilities

	£	s.	d.	£	s.	d.	aff.
Payables				16,800	17	2	
Owners' equity:							
Alberto di Jacopo	10,084	5	0				
Heirs of Lapo	12,476	3	1				
Neri, surviving brother	6,093	8	0				
Jacopo, Alberto's son	2,648	18	5	31,302	14	6	
Total				48,103	11	8	

Allocation of loss

		£	s.	d.	aff.
Alberto and son Jacopo	4 shares	775	18	4	
Sons of Lapo, deceased brother	3 shares	581	18	9	
Neri, surviving brother of Alberto	4 shares	775	18	4	
Total	11 shares	2,133	15	5	

Note: Payment of the customary return of 8 per cent on invested capital had been resumed several months before July 1, 1319, so that there was in reality a net profit.

6

July 1, 1319–July 1, 1321

Assets

		£	s.	d.	aff.
Money and goods in the hands of factors:					
Venice		17,000	0	0	
Flanders		4,387	0	10	
	Subtotal	21,387	0	10	
Woolshop in charge of Caroccio		12,378	14	9	
Receivables and consignments		6,213	11	6	
Goods and ready cash *in fondaco*		2,742	5	4	
Real estate (one farm)		467	5	0	
Error		20	0	0	
	Total	43,208	17	5	

Liabilities

		£	s.	d.	£	s.	d.	aff.
Payables					13,254	12	5	
Accrued wages and salaries					348	3	2	
Due to partners					1,815	5	10	
	Subtotal				15,418	1	5	
Owners' equity:								
Alberto		8,996	10	9				
Caroccio and his brothers		11,181	6	4				
Neri, Alberto's brother		1,821	7	5				
Jacopo, Alberto's son		2,660	11	1	24,659	15	7	
	Subtotal				40,077	17	0	
Profits					3,131	0	5	
	Total				43,208	17	5	

Division of Profits

		£	s.	d.	aff.
Alberto di Jacopo	3 shares	626	4	1	
Caroccio and his brothers	5 shares	1,043	13	6	
Neri	4 shares	834	18	9	
Jacopo d'Alberto	1 share	208	14	8	
Nerozzo d'Alberto	1 share	208	14	8	
Francesco d'Alberto	1 share	208	14	8	
Total	15 shares	3,131	0	4	

Ratio of profits to equity: $\frac{3{,}131}{24{,}659} = 12.7$ per cent.

Average return per year: 6.35 per cent.

7

July 1, 1321–January 1, 1323

Assets

		£	s.	d.	aff.
Money and goods in the hands of factors abroad:					
Venice		13,863	19	3	
Flanders		9,450	6	0	
	Subtotal	23,314	5	3	
Woolshop in Florence managed by Caroccio		12,456	15	8	
Receivables and consignments		2,132	11	10	
Goods in stock		1,017	1	0	
Cash on hand		307	5	0	
	Total	39,227	18	9	

Liabilities

		£	s.	d.	aff.
Payables		7,967	5	11	
Accrued wages and salaries		615	7	10	
Subtotal		8,582	13	9	
Owners' equity:	£ s. d.				
Alberto di Jacopo	12,003 10 5				
Caroccio and brothers	12,136 18 11				
Neri	3,014 12 5				
Jacopo, Alberto's son	2,771 12 4	29,926	14	1	
Subtotal		38,509	7	10	
Profits to be divided among the partners		718	10	11	
Total		39,227	18	9	

Division of Profits

		£	s.	d.	aff.
Alberto di Jacopo	3 shares	134	14	6	
Neri, Alberto's brother	3 shares	134	14	6	
Caroccio and brothers	5 shares	224	10	10	
Nerozzo, Alberto's son	1 share	44	18	2	
Francesco, Alberto's son	1 share	44	18	2	
Jacopo, Alberto's son	1 share	44	18	2	
Agnolo, Neri's son	1 share	44	18	2	
Francesco, Neri's son	1 share	44	18	2	
Total	16 shares	718	10	8	

Ratio of profits to equity: $\frac{718}{29{,}926} = 2.4$ per cent.

Average per year: 1.6 per cent.

8

January 1, 1323–August 15, 1325

Assets

	£	s.	d.	aff.
Money and goods in the hands of factors abroad:				
Flanders	20,500	18	11	
Venice	17,746	3	5	
Subtotal	38,247	2	4	
Woolshop in Florence managed by Caroccio	70	0	0	
Receivables	2,045	1	6	
Goods in stock (cloth and other commodities)	2,313	10	0	
Cash on hand	25	6	3	
Total	42,701	0	1	

Liabilities

	£	s.	d.	£	s.	d.	£	s.	d.	aff.
Payables							13,394	8	8	
Owners' equity:										
Corpo divided into 25 shares of £1,000 each				25,000	0	0				
Sopraccorpo										
Deposits of partners beyond the capital										
Jacopo d'Alberto				540	14	8				
Nerozzo d'Alberto				55	2	10				
Francesco d'Alberto				55	2	10				
Subtotal				25,651	0	4				
Deduct: debit balances of partners:										
Alberto di Jacopo	1,636	19	9							
Caroccio and brothers	631	2	2							
Neri	2,263	15	6	4,531	17	5	21,119	2	11	
Subtotal							34,513	11	7	
Profits							8,187	8	6	
Total							42,701	0	1	

Division of Profits

	Shares		£	s.	d.	aff.
Charity (*Poveri per Dio*)			62	8	6	
Alberto di Jacopo	8	shares	2,600	0	0	
Neri, Alberto's brother	4	shares	1,300	0	0	
Caroccio and brothers	10	shares	3,250	0	0	
Jacopo d'Alberto	1	share	325	0	0	
Nerozzo d'Alberto	1	share	325	0	0	
Francesco d'Alberto	1	share	325	0	0	
Total	25	shares	8,187	8	6	

Note: The *corpo* as distinct from the *sopraccorpo*, or surplus, was not set up until January 1, 1323. From August 15, 1325, onward, profits were divided strictly in proportion to the number of shares in the *corpo*. On the other hand, partners received an interest of 8 per cent on credit balances beyond the *corpo*, but paid 8 per cent, if they failed to supply their quotas.

Ratio of profits to equity: $\frac{8{,}187}{21{,}119}$ = 38.8 per cent.

Average per year: 14.8 per cent.

9

August 15, 1325–November 1, 1327

Assets

	£	s.	d.	aff.
Money and goods in the hands of factors abroad:				
Flanders	22,424	14	11	
Woolshop in Florence, managed by Caroccio	1,900	0	0	
Goods in stock and cash on hand	10,424	13	9	
Receivables	11,146	18	0	
Total	45,896	6	8	

Liabilities

	£	s.	d.	£	s.	d.	£	s.	d.	aff.
Payables							10,459	3	3	
Accrued wages, salaries, and bonuses							184	0	0	
Subtotal							10,643	3	3	
Owners' equity:										
Corpo, 25 shares of £1,000 each				25,000	0	0				
Sopraccorpo										
Deposits of partners beyond quotas:										
Jacopo d'Alberto				217	16	0				
Caroccio and brothers				1,059	2	1				
Nerozzo, son of Alberto				198	19	0				
Francesco, son of Alberto				131	13	6				
Subtotal				26,607	10	7				
Deduct: debit balances of partners:										
Alberto di Jacopo	964	8	4							
Neri	2,170	14	3	3,135	2	7	23,472	8	0	
Subtotal							34,115	11	3	
Profits to be divided							11,780	15	5	
Total							45,896	6	8	

Division of Profits

		£	s.	d.	aff.
Set aside for charities		162	3	11	
Alberto di Jacopo	8 shares	3,536	0	0	
Caroccio and brothers	10 shares	4,420	0	0	
Neri, Alberto's brother	4 shares	1,768	0	0	
Jacopo, Alberto's son	1 share	442	0	0	
Nerozzo, Alberto's son	1 share	442	0	0	
Francesco, Alberto's son	1 share	442	0	0	
Undistributed		568	11	6	
Total	25 shares	11,780	15	5	

Ratio of profits to equity: $\frac{11{,}781}{23{,}472} = 50$ per cent.

Average per year: 22.6 per cent.

10

November 1, 1327–November 1, 1329

Assets

	£	s.	d.	aff.
Money and goods in the hands of factors abroad:				
Flanders	20,100	0	0	
Avignon (Court of Rome)	13,540	0	0	
Venice	5,907	0	0	
Subtotal	39,547	0	0	
Woolshop managed by Francesco, son of Alberto	4,700	0	0	
Receivables	14,285	12	4	
Goods in stock	4,928	13	0	
Cash on hand	161	7	0	
Total	63,622	12	4	

Liabilities

	£	s.	d.	£	s.	d.	aff.
Payables				21,648	8	10	
Due to Marco Bonsignori, Venetian factor				2,248	4	8	
Subtotal				23,896	13	6	
Set aside for charity				145	0	0	
Subtotal				24,041	13	6	
Owners' equity:							
Corpo, 25 shares of £1,000 each	25,000	0	0				
Sopraccorpo							
Deposits *fuori del corpo:*							
Heirs of Alberto di Jacopo	973	4	4				
Jacopo d'Alberto	892	15	5				
Nerozzo d'Alberto	610	15	0				
Caroccio and brothers	5,670	12	10				
Subtotal	33,147	7	7				
Deduct: debit balances of partners:							
Francesco and Agnolo, heirs of Neri	1,990	9	4	31,156	18	3	
Subtotal				55,198	11	9	
Profits to be divided				8,424	0	7	
Total				63,622	12	4	

Division of Profits

		£	s.	d.	aff.
Nerozzo d'Alberto, special bonus		145	0	0	
Set aside for charities		154	0	0	
Heirs of Alberto di Jacopo	8 shares	2,600	0	0	
Heirs of Neri, Agnolo and Francesco	4 shares	1,300	0	0	
Caroccio and brothers	10 shares	3,250	0	0	
Jacopo d'Alberto	1 share	325	0	0	
Nerozzo d'Alberto	1 share	325	0	0	
Francesco d'Alberto	1 share	325	0	0	
Total	25 shares	8,424	0	0	

Ratio of profits to equity: $\frac{8,424}{31,157}$ = 27 per cent.

Average per year: 13.5 per cent.

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The Augusta (Georgia) Manufacturing Company in Peace, War, and Reconstruction, 1847-1877

The potential advantages of the South over New England as a textile manufacturing region were recognized early in the nineteenth century, but it remained to be proved whether the disadvantages were insuperable. The success of a few mills like the Augusta Manufacturing Company provided the necessary precedent and inspiration, and precipitated the migration of an entire industry. The process of recording this episode is in itself of interest, for the pertinent company records have long since disappeared.

Fundamental political and social changes of the nineteenth century influenced the economic attitudes of citizens everywhere. Particularly in the field of industrialization was this new mood translated into action.

In Georgia the force of the industrial impulse struck about 1828 and was felt with increasing pressure throughout the century. Cotton being basic to the South's economy, the change of pattern from home to factory manufacture was particularly significant to the infant textile industry.

One of the first areas of the state to see permanent and tangible evidence of the advantages of the cotton industry was that of Augusta and its immediate vicinity. Here the Belleville and Richmond factories, located on creek banks near the city, were the earliest permanent establishments. Although the falls of the Savannah, a few miles above the city, were judged capable of providing power sufficient to operate innumerable mills, the cost of its development was too great for individual capital.[1] It was therefore some years before any effort was made to harness this force of nature which offered such tantalizing possibilities.

The prosperity of the Belleville and Richmond factories eventu-

[1] *Georgia Courier* (Augusta), June 23, 1828.

ally stimulated new interest in the industry; indeed, the flourishing condition of similar mills in all parts of Georgia served almost as a rebuke to the citizens of Augusta. Finally, in 1845, a company made up of Augusta's wealthiest citizens – the list included bankers and city officials – was incorporated by the legislature. Their purpose was to build a canal to convey the water power of the Savannah River to the city.[2]

It was hoped that the projected canal would inject new spirit into the community and introduce an era of renewed prosperity and growth as a manufacturing center; the rapid spread of cotton culture to the rich lands of states west of Georgia had already begun to curtail cotton export trade of Augusta. The leading citizens of the city accordingly raised $500,000 to build this "artificial river," the power of which was to be leased to entrepreneurs. The first businessman to take advantage of the opportunity was Governor Troup, who built a flour mill on the canal bank.

In 1847 the Augusta Manufacturing Company was organized with a capital of $160,000. The directors immediately employed Jabez Smith, one of the most experienced cotton manufacturers in the South, to superintend the erection and equipment of the factory. Smith was the pioneer cotton textile promoter at Petersburg, Virginia, in 1827, and also the promoter of a cotton mill in Halifax County, North Carolina, in 1834. Noted not only as a promoter but also for his twenty years of successful mill management, Smith was given complete charge of initiating the new enterprise. His past experience well fitted him for the job, since he was largely responsible for making Petersburg – which had in 1838 five large cotton factories – one of the leading textile manufacturing centers south of the Potomac.

Determined as they were to spare no effort to insure success for this almost public enterprise, the citizens of Augusta were assured that they could rely "on Mr. Smith's judgement, backed as it is by an indomitable energy, which few difficulties can repress."[3]

With such exertions as these the company was launched on its career with every chance of success. There were many people who scoffed at the entire proceedings, pointing out innumerable difficulties standing in the way of the company's future. The editor of the Augusta *Chronicle and Sentinel* admitted that there were risks in-

[2] *Georgia Journal* (Milledgeville, Ga.), cited in the Hillsborough (N.C.) *Recorder*, May 1, 1845.

[3] *The Southerner* (Richmond, Va.), Jan. 30, 1847, citing the Petersburg (Va.) *Intelligencer*.

volved, but he had had the assurance of leading Georgia manufacturers that with capable management the company could not fail to make a profit and be a boon to the city.

It was with a sense of pride that this editor announced to his fellow citizens that the fear of insufficient and unwilling labor had been proved false. "There are more applications for work than the company can employ; and the success of Georgia girls in learning to spin, weave, &c., is most creditable to their tact, intelligence and industry." The Augusta Mill came as a great blessing to such persons who could find no employment in the city – especially to women and children for whose labor there was little demand. Almost overnight they were transformed from burdens on the public to producers of wealth and useful citizens.[4]

One widow and her two children worked in the mill and earned a total of $34 a month, the daughter contributing $5.00 of this sum each week. Thus this little family and other equally needy persons were restored to independence. The editorial question was asked "is it no advantage to this community that its most needy families – and no one is above the possibility of want – be furnished with the means and situation to earn, without discredit or severe toil, each $400 a year."[5] The position of laborers in the Augusta Mills improved somewhat as time passed. In 1852 one girl employed in the factory deposited $95 of her savings with the superintendent of the mill. This led a visitor to the mill to observe that "we thought that a rather good indication of fair wages on the one side and prudence on the other."[6] This, of course, is only one side of the question – yet it was obvious that Augusta was profiting in many ways from its cotton mill. The success of this mill was such that it was said to cancel all the arguments against the protective tariff.

In the spring of 1849 the company increased its capital to $200,000. The issue of stock was so quickly taken, and the clamor for more so insistent, that the directors exercised their charter privileges and immediately made a third issue of $160,000. The management decided to use this surplus capital to build alongside the original factory a second one of equal size. The first mill was at the time manufacturing 32,000 yards of cloth weekly and it was announced that as soon as the new machinery was placed in operation this amount

[4] *Niles' Register*, Vol. LXXIV (Dec. 20, 1849), p. 389.

[5] *Hunt's Merchants' Magazine*, Vol. XX (Jan., 1849), p. 114, citing the Augusta (Ga.) *Chronicle and Sentinel*.

[6] *The Politician and Weekly Nashville* (Tenn.) *Whig*, March 30, 1849, citing Augusta (Ga.) *Chronicle*.

would be increased to 50,000 yards. Such prosperity proved to the townspeople the propriety of their action in bringing the spindle and the loom to the cotton, rather than enduring the necessity of depending on New England and the added cost of sending the cotton there and bringing the cloth back in return.[7]

The progress of the city as evidenced by its industrial growth won high praise from the editor of the *National Intelligencer.* Augusta, it was said, was a community of unparalleled advantages, and the growing success of her manufactures was introducing a new period of prosperity to the whole region around her. No city was more alert to its future; and "she is only beginning to feel the impulse which is urging her onward to influence and greatness." Not only were the manufacturers reaping a reward, the editor enthused, but planters were enjoying a new prosperity from the diversity of the needs of the growing urban population.[8] The industrial expansion of the city continued, and Augusta Mill was accorded recognition as one of the most profitable in the Union.[9]

Stockholders, however, require something more tangible than mere reports of success and acknowledgment as benefactors of the community. Even this proof of success was soon forthcoming, for in the autumn of 1850 the directors declared a semiannual dividend of 5 per cent for the original stockholders.[10] The fondest hopes of the city fathers must also have been met when their city began to be transformed into a booming industrial town whose population had increased 60 per cent in the five years prior to 1851. Other towns were urged to follow the example of Augusta. "Let Georgians and Southern men, as they would merit the character of patriots, statesmen, and philanthropists, ponder on these facts, and persevere in the great work of enriching the South, improving the condition of the people and rendering her independent."[11]

It was noted by a Savannah newspaper that the Augusta company was evidently enjoying considerable prosperity, if the flow of its products through that port to Baltimore, Philadelphia, and New York were any indication. One steamer carried 350 bales of domestics which had been made to order by the mills. At this time the Augusta factory was producing coarse shirtings and sheetings.

[7] *Hunt's Merchants' Magazine,* Vol. XXVI (Feb., 1852), p. 257.

[8] *Daily National Intelligencer* (Washington, D. C.), May 14, 1850.

[9] *The Constitutionalist* (Augusta, Ga.), May 21, 1850.

[10] *Ibid.,* Oct. 24, 1850.

[11] *Arkansas State Gazette and Democrat* (Little Rock), Jan. 31, 1851, citing the Augusta (Ga.) *Chronicle.*

Georgia mills, presumably the Augusta company among them, were selling two-thirds of their products in the state and the remainder to markets in northern cities and the Mississippi Valley. The claim was made that the northern brokers preferred, for the Far East trade, the heavier and more durable goods made by factories such as the one at Augusta. The New England mills had by this time largely given up production of the type of coarse yarn and cloth suitable for the southern plantation trade in favor of finer goods. It is significant that as early as 1850 southern mills had already pre-empted certain markets and were said to be enjoying greater success than those of New England. This was in part due to a decline in cotton production which caused the price of cotton to rise for the first time in about twenty years; the fact that southern mills could buy cotton a few cents cheaper was a decided advantage.[12]

Newspaper claims of industrial prosperity were all too frequently a result of wishful thinking, however, having little relation to the actual facts. The years 1850 and 1851 were especially bad years for the textile manufacturers of the United States. A great many mills were forced to close down, for the price of their products did not keep pace with the cost of cotton. There is no reason to doubt that the economic stringency of this period adversely affected the Augusta company, as well as many others. This, unfortunately, was only the beginning of financial problems which beset the management of the mill.

The Augusta company was in 1851 in process of completing the second mill for which the capital had been raised in 1849, on the presumption that a plentiful supply of water power would be furnished by the canal. The company had a capital of $400,000, of which $100,000 was invested in the first factory and its equipment. This mill then employed 210 hands who operated 8,000 spindles to manufacture 42,000 yards of cloth weekly. The second mill building, which was in final stages of completion, was to be larger than the first – 250 by 50 feet with a projecting wing of 75 by 50 feet, both sections being five stories high. It was being equipped with machinery from Massachusetts and was expected to be in operation by the summer of 1852.

The operation of the two mills was to require 500 employees producing woolen and cotton goods and would consume, it was estimated, 5,000 bales of cotton annually. The management of the

[12] Savannah (Ga.) *News*, cited in *DeBow's Review*, Vol. XI (Sept., 1851), p. 322.

factory was experimenting with the location of its machinery; although most of the mills at that time placed their looms on the upper floors, the Augusta company made a more even distribution of these machines on the first, second, and third floors hoping that this innovation would "avoid wear and tear on the building from the vibration of two or three hundred looms near the top of the house."

The general appearance and success of the company led one observer to expect many Georgians soon to become advocates of the protective tariff as a means of preserving their new prosperity. The unusual growth of the cotton textile industry provoked the prediction that "the census returns of 1850 will exhibit the advancement of Georgia in manufactures, railroads, and population, within the last ten years, to be equal if not ahead of the progress of any other State in the Union."[13]

Having sunk thousands of their new capital in a second factory, it was with no little chagrin that the management discovered that the canal would not provide sufficient power to operate it. The canal company began and rushed to completion an aqueduct to increase the flow of water to the mill; in the meantime, the new factory stood idle and the first mill could operate only part-time.

At a meeting of the stockholders the president, William M. D'Antignac, explained that the company would resume full operations in 60 days, and once more dividends would be forthcoming "without which, the most judicious direction cannot expect the approval of stockholders." The investors were assured that they owned two mills equal to any in the Union, with machinery surpassed by none, and that the same facilities would have cost twice as much in any other section. With good management, it was explained, these could – if any mills could – be profitable.

The mills were then producing 45,000 yards weekly, and there was sufficient machinery to increase production to 108,000 yards of cotton goods. Calculating on the potential production figure, the management predicted an annual profit of $52,000, or 15 per cent on the total investment.[14]

[13] *Hunt's Merchants' Magazine*, Vol. XXVI (Feb., 1852), pp. 257–258.

[14] Rev. George White, *Historical Collections of Georgia* (New York, 1854), pp. 598–99. "Considerable attention is paid to manufactures in Richmond. The Augusta Manufacturing Company have two mills. No. 1 contains 8,160 spindles and 312 looms, for cotton cloth. Mill No. 2 has 6,280 spindles and 200 looms, for the manufacture of both cotton and woolen goods. The production of the two mills, when in full operation, will be over 125,000 yards per week."

The officers of the company had been subject to much criticism for poor management. In answer to such complaints, D'Antignac reported to the shareholders that "after all the croakings of the timid, sneers of the malicious, and the selfish artifices of the designing, there is no just reason to doubt that the enterprise will ultimately be profitable." He then seized on this opportunity to resign the presidency, and the management devolved on James Hope, who had for a year served as the company's secretary. The problem of official responsibility and remuneration, the president implied, was another reason for his resignation, as the secretary's salary had been increased to $3,000 and the presidency reduced to a "sinecure without attraction for the present incumbent." He thanked all for their confidence and support and wished them success "commensurate to the merit of the stockholders, who like many of you, embarked in the enterprise less with the expectation of individual profit than desire to renovate the then waning fortunes of our now prosperous city." The shareholders voted their thanks for his able direction of the affairs of the company, and accepted his resignation.[15]

It was William Gregg's contention that this company, like so many others in the South, was not and could not be successful because of its urban location and lack of operating capital. The Augusta company produced much cloth for which there was a very limited local demand, the older and well-established Belleville and Richmond factories having pre-empted the local markets. Thus it was forced to sell its products in distant markets. Since the company had to dispose of its output to meet current expenses, it was often forced to sell its goods in northern markets at such a substantial reduction that Georgia merchants could buy Augusta-made goods in the North and ship them back to Georgia cheaper than they could buy the finished product at home.[16]

The condition of the Augusta Mills grew worse instead of better. The shortage of water power was accompanied by an increasing problem of hiring sufficient labor to operate both mills, and the company had to depend upon drawing country people to Augusta to work in the mills. This transition from rural to urban life, from the relatively free life on a farm to the regimentation of a factory, was difficult and in some cases one that proved impossible to make. Once the novelty of fixed cash wages wore off the laborers

[15] Augusta (Ga.) *Constitutionalist and Republic*, March 4, 1853, citing the report of the Board of Directors, Feb. 26, 1853.

[16] William Gregg, "Practical Results of Southern Manufactures," *DeBow's Review*, Vol. XVIII (June, 1855), pp. 777–791.

became undependable, preferring to return to their irresponsible activities of the past. Many of these poor whites had learned to live off little and had developed such slothful habits that they could only with much patience be trained to take up improved ways. The mill was constantly agitated by a shortage of hands and was forced to pay premium wages – considerably higher than those in rural cotton mill villages such as Graniteville – to keep in operation.

The workers also tended to be demoralized by life in the city. Here were offered many undreamed-of temptations which were not so readily available in the country. The employees, not being a part of the ordered society of a mill village, fell into bad company; many became immoral and degraded by liquor. They could also avoid the control of mill churches and schools in a city where the company could not supervise their every activity.[17]

Thus the pleasant labor situation of the late 1840's changed as far as the management of the Augusta factory was concerned. The employees were so lazy that only hunger would induce many of them to work. The management of the factory begged local businessmen and other persons not to give food to these operatives, as it impeded the operation of the mills. A contemporary told Frederick L. Olmsted that "if you ride past the factory you will see them loafing about, and I reckon you never saw a meaner looking set of people anywhere. If they were niggers they would not sell for five hundred dollars a head."[18]

Some New England girls were induced by the offer of high wages to accept employment in Georgia, but they found their situation so unattractive "owing to the general degradation of the labouring class – as very soon to be forced to return."[19]

The continued failure of the Augusta company to pay dividends or show signs of recovery caused much discontent among shareholders. Those in the city could more easily ascertain the problems of the mill, but the apparent failure of the directors to make reports left many in the dark. One disgruntled stockholder wrote the *Constitutionalist* to ask for some explanation of the company's failure. The issue was an especially sore one with many, as the other two

[17] *Ibid.*

[18] Frederick L. Olmsted, *A Journey Through the Back Country* (2 vols.; New York, reprint edition, 1907), Vol. II, p. 127.

[19] Frederick L. Olmsted, *A Journey in the Seaboard Slave States* (2 vols.; New York, reprint edition, 1904), Vol. II, p. 185.

factories near Augusta were both prosperous and paying regularly on their stock.

The current rumors were that the directors, having given up all hope of success, had ceased holding meetings or even making an attempt at serious direction of mill affairs. They no longer kept in touch with even the general business of the concern. Such delinquency was incomprehensible to the stockholder whose letter appeared in the newspaper. His suggestion was that the directors resign rather than allow "the concern [to] dwindle away and be entirely unprofitable for lack of effective and efficient direction."[20]

Although the company continued to languish through the following months, the depression of 1857 administered the *coup de grace;* it was then too late to rescue the company from its final bankruptcy. The original owners were forced to liquidate their holdings, after having received no dividends for years, and finally to sell the magnificent facilities for only a quarter of their original cost.[21] The new owners, having acquired a valuable business for a mere fraction of its cost, were expected to profit greatly and to continue to benefit the city.[22]

The new company took possession of the mills in 1859, on the eve of the Civil War. These were boom years for all manufactories; the demand for their products was unprecedented. The requirements of the Confederate armies and the blockaded civilian population were all but insatiable, and it was anticipated that the many and well-organized mills of Georgia would make the greatest contribution to the textile needs of the southern states. Unfortunately, many manufacturers, after years of indifferent patronage, used this opportunity for profiteering, charging all the traffic would bear.

The situation grew desperate as the war continued on its dreary course. The shortage of cotton goods especially created hardships for the wives and families of soldiers. The Confederate government, attempting to relieve such conditions, enacted price controls and military exemptions for workers and managers in essential industry; in 1862 the Exemption Act was passed by the Confederate Congress allowing essential workers to stay home as long as owners of factories charged no more than a 75 per cent profit on their goods. It was to the discredit of most of the mill owners that, real-

[20] *Constitutionalist and Republic* (Augusta, Ga.), Feb. 10, 1855.
[21] *DeBow's Review*, Vol. XXIX (Augusta, 1860), pp. 226–232.
[22] *Ibid.*, Vol. XXV (Dec., 1858), pp. 723–725.

izing they could demand and receive almost anything they wanted, they were reluctant to accept even these generous terms.

The unwillingness of Georgia owners to cooperate in relieving the distress of a war economy created public hostility toward them, and the Georgia Legislature passed an act which gave the governor the power to seize and operate mills until the needs of Georgia soldiers were met. The alternative to this drastic threat was acceptance of the terms of the Exemption Act.[23] Although thus bound by legal restrictions, the Augusta mills made tremendous profits throughout the war, largely at the expense of the Confederate government. One merchant searching for cotton goods reported that they were high-priced in Augusta, but the Augusta company was making no civilian goods and "are running all their looms on shirtings and sheetings and the government gets all they make." [24]

War conditions led to inevitable wear and tear on both men and machines, the almost constant operation leading to serious deterioration of much of the mill's equipment. In 1865 the collapse of the Confederacy involved Augusta in the general ruin and bankruptcy of the South, as well as the trials of military occupation. This city had been one of the main centers of manufactures for the Confederacy, and many of the mills which had produced vital supplies of war were destroyed by Union troops. The Augusta Cotton Mills were happily spared destruction by burning; there is no understanding why, as Sherman's, Stoneman's, and Wilson's troopers destroyed dozens of cotton mills in Alabama, Georgia, South Carolina, and North Carolina. There seemed to be no set plan to the ravage, some mills escaping the vandalism for no apparent reason.

Although the disorganization caused by the war produced much confusion in the early months after Appomattox, by June of 1865 the Augusta factory was once more in production. There were, according to a contemporary report, 72 other Georgia cotton mills in process of erection by the autumn of 1866.[25] The immediate result of peace was the return to cotton culture, to supply the world demand after a four-year shortage of the staple. Capital was unusually scarce, and with cotton selling for well over one dollar a pound there was a general rush of southerners and Union soldiers into its production.

[23] Hillsborough (N.C.) *Recorder*, Dec. 10, 1862.

[24] W. H. Flinn Letters and Papers, Manuscript Division, Duke University, letter to W. H. Flinn from Atlanta, Dec. 27, 1862.

[25] *The Western Democrat* (Charlotte, N. C.), Oct. 10, 1866.

The cotton tax was the one item that served as an encouragement to continued manufacture of textiles in the South. The act which levied this tax specifically provided for a rebate equal to the tax to be paid to domestic manufacturers, thus enabling them to compete in the world markets. Through this provision it was also provided, albeit indirectly, that cotton manufactured in the districts in which it was grown would not be taxed.[26] This acted as a stimulant for the existing factories and caused many planters, disgusted with the demoralization of their labor supply, to invest in new cotton mills.

A campaign to promote the building of cotton factories was inaugurated throughout the South. Many newspaper editors attributed the North's victory to superior industrial facilities and held out to their readers the necessity of concentrating on an improved textile industry as the only means of eventually recovering their independence. The papers constantly pointed out the superior advantages that the South had over the North for cotton manufacture and thus slowly but surely developed in southerners a growing interest in the program.

Within three years after the war the Augusta Manufacturing Company was one of the most prosperous in the country. The semiannual report of the president was distinctly encouraging. The gross earnings of the factory for the first six months of 1868 were $135,510.65, with a net profit of $107,534.14. From this sum the directors declared two dividends of 5 per cent and placed in a reserve fund nearly fifty thousand dollars. The company had in the three years, beginning in June, 1865, paid dividends totaling $360,000, established a reserve of $225,000, and purchased new machinery worth $93,000.

These figures were published as a challenge for New England manufacturers to equal. The editor of the *New York Times* replied that this was an exceptional case, and not indicative of the general southern situation. There were in New England cotton mills paying large dividends while others in the same region failed. He attributed the success of the Augusta Mills to northern management which had instituted Yankee ideas. This statement about the Augusta company management, unfortunately, cannot be verified or amplified. Many southern mills did have northern superintendents, overseers, and technicians, and the possibility must be admitted that

[26] Harry E. Smith, *The United States Federal Internal Tax History from 1861 to 1871* (Boston, 1914), p. 226.

the Augusta undertaking owed much to northern experience and skill, though not, apparently, to northern capital.

It was the view of the *Times* editor that the South enjoyed many advantages, but an industrial center comparable to Lowell could never be established on any southern water power without the capital and skill of northerners. In his somewhat prejudiced opinion southerners did not have the ability to succeed. He said further:

> The Yankee, who for years has made himself sharp by delving in the keen atmosphere of the higher latitudes, has naturally more aptitude for making money and "pushing things" than the man accustomed to a hot climate which robs a man of his ambition, and deadens all his disposition for thrift. Under the present condition of things, the Northern capitalist does not feel safe to invest in cotton manufactures at the South, and not until "peace" is fully established, will he make a movement in that direction. In short, when a Northern man can express his opinions as freely there as he can in New York or Massachusetts, there will be plenty of music by the side of the water-powers of the South, and the Northern manufacturer will find in the Southern manufacturer an able rival.

The accumulated bitterness of the war years and the unpleasantness of the Reconstruction Acts obviously had to be put aside by southerners if they wanted aid from the North.[27]

In 1869 Senator William Sprague, leading manufacturer of cotton in Rhode Island and investor in southern mills, reported that the Augusta mill "will surpass in the success of its operations, the best one in New England." In his opinion the phenomenal prosperity of this factory was due to the fact that it had the most advanced and productive machinery in the country.[28]

Two years later an Englishman commented on the continuing success of the company. The Augusta Mill then operated with both steam and water power and had a plentiful supply of skilled workers. Its capital was $600,000 and it was paying annual dividends of 20 per cent. In the Britisher's view the financial success of the second group of investors was in part due to the great loss of the originators of the factory. During the war the mill had enjoyed great profits and "obtained a vantage ground which it has hitherto held with success." [29]

The panic of 1873 had little effect on the Augusta Mill or on many other southern factories. The Georgia Legislature in that year ex-

[27] *The Daily Journal* (Wilmington, N. C.), Jan. 3, 1869, citing the *New York Times*.

[28] *The Congressional Globe*, 41st Cong., 1st Sess., 1869, Vol. 158, March 15, 1869. *The Daily Journal*, March 21, 1869.

[29] Robert Somers, *The Southern States Since the War, 1870–1871* (London, 1871), p. 66.

empted all money invested in cotton, woolen, or iron manufactories from any state, county, or municipal taxes for ten years. The city council of Augusta, as an added inducement for investment, passed an ordinance paying a 3 per cent bonus on all out-of-state capital invested in the city.[30] This kind of support was virtually unknown in New England industrial regions.

The interest of Georgians in the industrial growth of their state grew by leaps and bounds as Reconstruction came to an end. The railroads and businessmen of the South tried in various ways to encourage the flow of capital into their section. Excursions of businessmen were taken throughout the South to see the progress and opportunities for investment. One such group from the Ohio Valley included men from Cincinnati, Columbus, Chicago, Louisville, and St. Louis. With a baggage car converted into a tavern containing twenty kegs of beer, this group left on a twenty-day visit to the leading towns of Virginia, North and South Carolina, and Georgia. They were greatly impressed with the growth and success of the cotton textile industry of Georgia and its apparent exemption from the suffering caused by the depression.

This group was welcomed at Augusta with excellent southern hospitality, their entertainment – planned by the leading citizens of the city – consisting of a rural barbecue and picnic. Transported to the picnic grounds on the hydraulic canal, the visitors took appropriate notice of the vast water power available in the city. Augusta, it was agreed, was filled with a progressive spirit; this they attributed to "Yankee spirit." The Augusta Mill, much increased in size and production and employing one thousand white women in its immense works, was commended as one of the sights of the city. One visitor remarked that "this factory has been very successful pecuniarily, notwithstanding the effects of the panic of 1873." [31]

Although for thirty years the Augusta Manufacturing Company passed through many vicissitudes, during and after the war, its prosperity was incontestable. Notwithstanding the managerial and technical assistance received from northerners, its beginning and eventual success was primarily because of the progressive spirit of southerners. Even though it failed once, the collapse was due more to

[30] *The Daily Journal* (Wilmington, N. C.), Feb. 13, 1874.

[31] B. J. Loomis, "Letters from the South Atlantic States," *The Cincinnati* (Ohio) *Commercial*, May 10–30, 1877.

working capital scarcity and a series of unfortunate circumstances than to any lack of basic southern aptitude for manufacturing.

Gaps in the Augusta story are necessarily large and will probably not be filled in unless the company records are discovered. Such questions as the nature of the company's marketing and the extent of northern supervisory and technical influences are obviously important. Even without the benefit of such information, however, the story of this southern industrial venture has many historically significant features. It illustrates how early the northern mills began to lose out in certain lines to southern competitors, and it shows very clearly the integration of private profit motives with broader concepts of regional development. Indeed, the company-community identity of interest forms one of the most conspicuous themes of the development, in marked contrast to contemporary New England experience. Finally, the significance of the Augusta company to later developments should be emphasized. It was due to the successful efforts of managers and workers of such mills as the Augusta company that Henry Grady and other publicists were able to create the great cotton mill campaign of the 1880's, which in the succeeding half century witnessed the slow but sure transfer of New England's chief industry to the South.

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Public Accounting in the United States from 1913 to 1928

In the years between 1913 and 1928 public accounting evolved from a relatively obscure and limited practice to full maturity as a respected and flourishing profession. The present article deals with these years in some detail, expanding a shorter survey published in the Business History Review *in June, 1956. The period from 1928 to 1951 is dealt with in detail in an article in the December, 1956, issue.*

By 1913 the profession of public accounting had become established in the United States, much of the original impetus having been imparted by accountants who came to this country from England and Scotland. These early English and Scottish accountants continued to influence the development of accountancy, but by 1928 the majority of the members of the profession were native Americans educated in the United States.

The period break of 1913 was chosen because of the tremendous effect of the income tax law on public accounting, ushering in as it did a "New Era" for the profession. The 1928 division point was chosen because that was the last full year of an unprecedented prosperity that had built up in the American economy since the beginning of World War I. That year marked the transition from one age to another in accountancy, as in so many other phases of American economic activity.

Not all the developments of this period advanced the profession. The internal differences in the public accountancy profession are indicated by the fact that several national organizations, all purporting to represent the profession, were functioning at the same time. This situation was beneficial to the extent that areas of disagreement were emphasized very early, with consequent demands for unification. But, on the other hand, the profession presented a divided front to the businessmen of the day, and by 1928 the goal of unity had not been entirely achieved. The period also witnessed

the enactment by many states of their first C.P.A. laws, and by the further growth in numbers of public accounting firms.

The Evolution of Accounting Practice

The Sixteenth Amendment and Accounting (1913)

The principal fiscal development of this period, destined to give the profession major additional responsibilities, was the passage of a new income tax law. The enactment in 1909 of a 1 per cent franchise tax measured by corporate profits had encountered no strong opposition. This factor, among others, encouraged proponents of an income tax to redouble their efforts. Since the 1894 act had been declared unconstitutional by the United States Supreme Court (the Pollock *v.* Farmers' Loan and Trust Co. case), it was necessary that a constitutional amendment be enacted.

The public accountant who was to be called upon to prepare the tax reports for large numbers of taxpayers naturally felt a vital interest in the terms of the proposed new law and the provisions for collection. Fortunately, the Congress asked and received the advice of public accountants before the final income tax bill was submitted to either House of Congress.[1] The income tax measure, which constituted a part of the Underwood-Simmons Tariff, was passed by Congress as anticipated.[2] The United States tariff law of 1913, being "an act to reduce tariff duties and to provide revenue for the government and for other purposes," was ratified by the necessary number of states by the latter part of February, 1913, and was approved by the president on October 3.[3] The effective date of the law was March 1, 1913.

The 1913 income tax was a graded one, starting with a normal tax of 1 per cent on all income in excess of $3,000 (or, in the case of a married man living with his wife, $4,000) and increasing by degrees through the operation of an additional tax to 7 per cent upon that part of a person's net income which exceeded $500,000.[4]

The enactment of the individual and corporation income tax law might have had an adverse effect on the accounting profession had

[1] Editorial, "A Federal Income Tax," *The Journal of Accountancy*, Vol. XV (Jan., 1913), p. 60.

[2] Editorial, "The Income Tax," *The Journal of Accountancy*, Vol. XVI (Oct., 1913), p. 307.

[3] Editorial "United States Income Tax," *The Accountant*, Vol. XLIX (Aug., 1913), p. 152.

[4] John B. Niven, "Income Tax Department," *The Journal of Accountancy*, Vol. XVI (Nov., 1913), p. 384.

it occurred before sufficient numbers of qualified accountants were available. By 1913, however, there was already established a group of well-trained members of the accounting profession, with legal recognition, ready to assist both business people and the government in this new project. This trained professional nucleus had the immediate problem of assisting hundreds of businessmen who had not previously found it necessary to prepare a statement of income and expenses. Because of the recognition and stature already enjoyed by the profession, it was natural for the taxpayer to turn to accountants for assistance in preparing their income tax returns.[5]

A feature of the 1913 law that was gratifying to the profession was the provision that corporations, associations, and insurance companies were at liberty to adopt the fiscal year in preference to the calendar year upon duly filed notice of such intentions. This provision was not present in the 1909 tax law and had caused a great deal of trouble in inventory taking and prompt filing of returns. The accountants wanted this provision so that their work could be spread throughout the year in order that clients would benefit from more thorough auditing procedures.[6]

One consequence of the new income tax legislation was the inauguration of a new department, called the Tax Clinic, in *The Journal of Accountancy* (beginning with the November, 1913, issue) dealing specifically with the income tax and its administration. The necessity for this new department grew out of the obvious impact of the law upon the public accounting profession. It was clearly desirable that the official journal of accountancy promptly distribute the latest available information – particularly official government releases – about new laws and regulations.[7] These were soon forthcoming.

Soon after the enactment of the 1913 bill an amendment was passed which provided that income in general should be determined in accordance with the method of accounting regularly employed by the taxpayer. The broad scope of this amendment was later modified by rulings of the Bureau of Internal Revenue and the Board of Tax Appeals. Rules and regulations issued by the Internal

[5] "Income Tax in the United States," *The Accountant*, Vol. XLIX (Dec., 1913), p. 861.

[6] Editorial, "The Income Tax," *The Journal of Accountancy*, Vol. XVI (Oct., 1913), p. 307.

[7] Editorial, "A New Department," *The Journal of Accountancy*, Vol. XVI (Nov., 1913), p. 373.

Revenue Department set out specific methods of determining taxable income which were not necessarily according to the accounting methods previously employed.

The problems of the profession and of the taxpayers were further complicated when the records of the business had to be revised to reflect statutory net income. The specific definitions set forth in the rules of the Internal Revenue Department brought about the need for adjusting the net income of a business computed according to good accounting principles to reflect income as defined in the law and clarified by rules of the Department.

While the accounting work created by the 1913 law and its early amendments was far greater than that arising out of the 1909 regulation, the new law brought the public accountant into a company only on a narrowly specialized assignment. The accountant, however, undoubtedly brought to the client's attention the many other services that he could render and that his employer had no idea could be provided. These tax engagements, among other things, often led to complete revision of accounting systems, in an effort to give the management more financial information.[8] Where, as was so often the case, accountants found that the records were inadequate, it was necessary to reconstruct business transactions in an effort to determine the taxable net income. The accountant was also called upon to design a chart of accounts to facilitate the determination of net income and to keep the records up to date in order to reflect earnings as time went on.

Accounting in World War I

To a considerable degree the widening scope of accounting practice and the greatly enhanced standing of accountants may be traced to the rapid increase in tax rates that went into effect in 1917.[9] Title 2 of the Federal Revenue Act of October 3, 1917, "an act to provide revenue to defray war expenses and for other purposes," was termed the "war excess profits tax." The purpose of the provision was to tax those profits in excess of normal (as indicated and judged by the profits made in a prewar period) made directly

[8] Editorial, "Brighter Prospects of Accountancy," *The Journal of Accountancy*, Vol. XVI (Dec., 1913), p. 459.

[9] George O. May, "The Economic and Political Influences in the Development of the Accounting Profession," in *Fifty Years of Service, 1898–1948* (Newark, N. J.: New Jersey Society of Certified Public Accountants, 1948), p. 11.

or indirectly through increased business arising out of the abnormal conditions prevailing.[10]

By this time the income tax law and the rules and regulations of the Bureau of Internal Revenue had become so complex that expert assistance was a virtual necessity if the requirements of the law were to be met.[11] The leading accountants of the day were quick to grasp the significance of the opportunity for service and were able to convince the business public by word and performance that the public accounting profession possessed the intelligence and initiative to cope with the new necessities.[12]

The auditor was called with more and more frequency into conference for advice on financial transactions – not only the proper treatment of completed business, but also the best method of handling contemplated transactions. As a consequence, the certified public accountant was soon accepted as the most competent adviser in tax matters and was shortly to be regarded as the professional man best qualified to serve in many other important business advisory capacities. It seems clear that while the counsel of a few outstanding members of the profession had been sought by many clients prior to 1917, before World War I the certified public accountant was primarily an auditor of past transactions.[13] Commencing on a large scale in the war years, however, the old "holler and check" function of the auditor bloomed into more valuable and complex responsibilities.[14]

One immediate consequence of the outbreak of hostilities, for example, was a demand for American accountants to act as correspondents for English Chartered Accountant firms on war contracts. The entrance of the United States into the war increased the demand for accountants still further.

One of the more responsible engagements of the day was undertaken by Arthur Young and Company for J. P. Morgan and Company, which was acting as a munitions purchasing agent for the

[10] Editorial, "Defects of Title 2 of the Federal Revenue Act of October 3, 1917," *The Journal of Accountancy*, Vol. XXV (Feb., 1918), p. 81.

[11] Norman L. McLaren, "The Influence of Federal Taxation upon Accountancy," in *Fiftieth Anniversary Celebration* (New York: The American Institute of Accountants, 1937), p. 128.

[12] Editorial, "Preparation of Tax Returns," *The Journal of Accountancy*, Vol. XXV (June, 1918), p. 447.

[13] Norman L. McLaren, "The Influence of Federal Taxation upon Accountancy," *The Journal of Accountancy*, Vol. LXIV (Dec., 1937), p. 435.

[14] Norman L. McLaren, "Evolution of American Accountancy" (unpublished typescript), p. 5.

British and French governments.[15] The Morgan assignment developed into a detailed study of all transactions relating to purchases under their contracts. The detailed audit which followed involved not merely a check of the payment of vouchers, but went further and traced the receipts of goods from the time they left the contractors' plants to the time they were put on board ship. This was probably the first and largest audit conducted in such detail under modern business conditions.

Another typical assignment was one involving a company that had been making machines for the British government and had not met delivery schedules. This failure was largely because of the frequent change in specifications for these machines – a result of rapid technical development in the industry. Arrangements were made whereby the company would be reimbursed by the British government for the cost incurred. The accountants were engaged, as representatives of the British government, to determine the cost of goods manufactured.

Arthur Young and Company also undertook an assignment relating to the manufacture of Enfield rifles for the British government. Three companies were involved: Remington Arms Company of Delaware, the Remington Union Metallic Cartridge Company, and the Winchester Repeating Arms Company. Prior to the time when the public accountants were engaged, the companies had not made many deliveries, although they had made large expenditures for building, machinery, and equipment. Arrangements were made between the government and the companies whereby the suppliers would be reimbursed for their costs up to a date in October, 1916, after which they would continue to complete the contracts at cost. Arthur Young and Company was engaged to determine those costs. Shortly thereafter, however, the British representatives felt that the determination of such costs by this firm was too one-sided a matter, and another firm of accountants was called in, the arrangements then being that Arthur Young would act for the suppliers and the other firm for the British government.[16]

When the United States entered World War I, numerous special assignments came to the office of Arthur Young and Company, many of which related to investigation of companies owned by

[15] Arthur Young, *Arthur Young and the Business He Founded* (New York: Privately Printed, 1948), p. 31.

[16] *Ibid.*, p. 34.

enemy aliens. In the war's wake, additional business resulted from a wave of mergers, Arthur Young, for example, being requested in 1919 to draw up a plan for the combination of the four largest chemical companies in the country.[17]

The experiences of this firm are mentioned as representative of the profession. It would seem safe to assume that the same type of business came to other firms during the period and that the crisis of the First World War helped bring the profession of accountancy to the forefront.

Reporting Standards for Certified Statements

The promulgation by the Federal Reserve Board in 1914 of a ruling calling for public accountants' certification of statements presented in support of application for discount of commercial paper brought into prominence a question which had been frequently discussed at conventions of the American Association of Public Accountants. This ruling added even more impetus to the growth of the profession and focused the attention of its leaders upon the national scope of the work of the public accountant.[18]

A committee of accounting leaders, consisting of W. Sanders Davies, Harvey S. Chase, George O. May, and Robert H. Montgomery, was formed to cooperate with the Federal Trade Commission in working out appropriate federal regulations. This committee was successful in persuading the Commission to dispense with the idea of a uniform accounting system and be satisfied with a more specific statement. Other members of the profession were consulted during the preparation of the committee's report, and the audit program which was recommended bore the stamp of widespread approval in accounting circles. The Federal Reserve Board then had the report published in the Federal Reserve Bulletin in 1917 under the title, "Approved Methods for the Preparation of Balance Sheet Statements." [19]

This publication was a statement of what the Federal Reserve Board believed a balance sheet audit should entail. Subsequently, after the Federal Reserve Board had adopted it as semiofficial, the document came to be what was regarded as the minimum require-

[17] *Ibid.*, p. 37.

[18] Editorial, "National Aspects of Public Accountancy," *The Journal of Accountancy*, Vol. XIX (Jan., 1914), p. 46.

[19] Editorial, "How the Text Was Published," *The Journal of Accountancy*, Vol. XLVII (May, 1929), p. 358.

ment for balance sheet audits.[20] The demand for the pamphlet was so great that it went through several printings.

Auditors' Responsibility and the Law

As early as 1919, *The Journal of Accountancy* frequently urged placing upon the shoulders of the accountant full responsibility for his work. The lack of court decisions in the United States on the subject, however, had resulted in a wide difference of opinion as to the extent of accountants' liability.

For years the general opinion seemed to favor the theory advanced in several English cases (London and General Bank, Ltd., The Leeds Estate, Building and Investment Company, and the Kingston Cotton Mill Company) to the effect that the accountant must exercise "reasonable care" in the preparation and certification of reports. These precedents made clear the responsibility of the auditor to inquire into the substantial accuracy of accounting reports. But the real extent of responsibility was (and is) established, in American practice, only when an accountant was charged with neglect of his professional obligations and damages were assessed.[21] Thus, while auditing standards were established by the profession, court decisions could and did materially affect what the profession considered minimum auditing standards.

The most prominent of these decisions was handed down by Judge Cardozo in the Ultramares Corporation *v.* Touche *et al.* (255 N.Y. 170, 174 N.E. 441 [1931]). Because of its significance, the details of this case are worth recapitulation.

In January, 1924, the firm of Touche, Niven and Company, public accountants, was engaged by Fred Stern and Company, Incorporated, to prepare and certify a balance sheet for the company as of December 31, 1923. This same firm of accountants had prepared the statements of this company during the previous three years.

When the audit was completed in February, 1924, the balance sheet was made up. The balance sheet stated that the assets were $2,550,671.88 and that the liabilities were $1,479,956.62, thus showing a net worth of $1,070,715.26. Attached to the balance sheet was the following auditor's certificate: [22]

[20] Editorial, "Significance of an Accountant's Certificate," *The Journal of Accountancy*, Vol. XLI (Jan., 1926), p. 33.

[21] Editorial, "Holding the Accountant Responsible," *The Journal of Accountancy*, Vol. XXVIII (July, 1919), p. 39.

[22] Ultramares Corp. *v.* Touche, 255 N.Y. 170, 174 N.E. 441, 442 (1931).

Touche, Niven & Co.
Public Accountants
Eighty Maiden Lane
New York

February 26, 1925

Certificate of Auditors

We have examined the accounts of Fred Stern and Company, Inc., for the year ending December 31, 1923, and hereby certify that the annexed balance sheet is in accordance therewith and with the information and explanations given us. We further certify that, subject to provision for federal taxes on income, the said statement, in our opinion, presents a true and correct view of the financial condition of Fred Stern and Company, Inc., as at December 31, 1923.

Touche, Niven and Company
Public Accountants

It was known to the accountants that the company used the financial statements to finance operations, which involved extensive borrowing of large sums from banks. The auditors also knew that the statements given Fred Stern and Company would be exhibited by them to bankers, creditors, and stockholders, according to the needs of the occasion, as the basis of financial transactions. When the balance sheet was made up, the accountants supplied the Stern company with 32 copies certified with serial numbers as counterpart originals.

The plaintiff, Ultramares Corporation, maintained that the certificate of the auditors was erroneous in two respects. The first was the auditors' certification of correspondence between the accounts and the balance sheet. The second was the auditors' certification, stated as a matter of opinion, that the balance sheet presented a true and correct picture of the resources of the business. Actually, there were serious discrepancies on both scores. Accounts receivable had been placed on the books and substantiated by invoices that did not exist. It was maintained that proper scrutiny would have revealed this fact to the auditors.

Judge Cardozo's decision, which promised to have a large influence upon American accounting practice, confirmed the common law concept which had been held for several years in the United States and England that an auditor should not be held liable to third parties for negligence. The injured party could, however, hold the accountant responsible for errors in judgment when fraud was present. In the Ultramares case the suit subsequently brought

on the grounds of fraud was settled out of court; no public record was made of the settlement.

The State Street Trust Co. *v.* Ernst was another case substantially analogous to the Ultramares case.[23] Prior to these two decisions it had been generally believed that the auditor had no responsibility whatsoever to persons who were not his clients. Since there was no contract with third parties, it was argued that there could not possibly be any responsibility to them. In other words, accountants had taken the position that even if they were negligent, the only person who had a right to complain was the client who had paid the fee. The Ultramares and State Street Trust cases bore out this contention to the extent of establishing that: [24]

(1) The client might recover from an accountant where the accountant had been negligent.
(2) Third parties (investors and creditors) could not recover from an accountant where he had been merely negligent.

But the two decisions actually went much further, and made it clear that:

(3) Third parties (investors and creditors) could recover from an accountant where fraud could be proved.
(4) Gross negligence on the part of accountants was sufficient evidence from which a jury might infer fraud.

The auditor's responsibility to his client was clarified still further by several other cases, the most notable being Craig *v.* Anyon and National Surety *v.* Lybrand.[25]

In the Craig *v.* Anyon case in the middle 1920's, the auditors failed to discover, over a period of five years, defalcations exceeding a million dollars. The trial court held the auditors liable and assessed damages for the amount of the plaintiff's loss. The amount of damages was reduced on appeal to $2,000, the fee paid to the defendant auditors for their services. The reason for this rather novel measure of damages was derived from the defense that the plaintiff had been guilty of contributory negligence in the supervision of his own malfeasant employee. Thus, it was established that if an auditor

[23] State Street Trust Co. *v.* Alwin C. Ernst, 278 N.Y. 104 (1938).

[24] Boris Kostelanetz, "Auditors' Responsibilities and the Law," *The New York Certified Public Accountant*, Vol. XIX (Feb., 1949), p. 94.

[25] William R. Craig *v.* James T. Anyon, 212 App. Div., N.Y. 55 (1925); affirmed 242 N.Y. 569 (1926). National Surety Corp. *v.* Lybrand, 256 App. Div. 226, 9 N.Y. 52nd 554 (1939).

could show that his client had himself been negligent, he had a defense to any suit for negligence.[26]

But the idea that contributory negligence would be an adequate defense was shattered by the National Surety *v.* Lybrand decision in 1939, which is appropriately discussed at this point although not falling within the limits of the period under general discussion in this article. As in the Craig case, a trusted but dishonest employee was involved. The employee's thefts covered a period of nine years without detection. He had managed to hide his embezzlements from three different accounting firms by knowing when the audits were to be performed. All three firms were sued by the plaintiff's surety company. After the first decision was appealed it was held that a prima-facie case for liability had been established. The most important phase of the decision was that "it is undisputed that cash in bank can be verified absolutely"; therefore, the "lapping" and "kiting" system used by the cashier should have been detected by the auditors.[27] Furthermore, the decision implied that the only kind of contributory negligence which could be an acceptable defense was that which involved actual interference with the auditors' conduct.

Practice before the Board of Tax Appeals

The Board of Tax Appeals was established by Congress under the provisions of the Revenue Act of 1924. The most immediate problem facing the board after it was organized in the latter part of 1924 was to establish who was qualified to practice before it. Some representatives who were obviously not qualified to represent the taxpayers had already appeared before the board.

The Board of Tax Appeals in its first ruling included a provision that practice before the board would be restricted to the following: [28]

(1) Attorneys-at-law who have been admitted to practice before the courts of the States, territories, or District of Columbia, in which they maintain offices, and who are lawfully engaged in the active practice of their profession.

(2) Certified Public Accountants who have duly qualified to practice as certified public accountants in their own names, under the laws and

[26] Boris Kostelanetz, "Auditors' Responsibilities and the Law," *The New York Certified Public Accountant*, Vol. XIX (Feb., 1949), p. 92.

[27] *Ibid.*, p. 93.

[28] Editorials, "Practice before the Tax Board" and "Board of Tax Appeals," *The Journal of Accountancy*, Vol. XXXVIII (Nov., 1924), pp. 205, 206.

regulations of the States, territories, or District of Columbia, in which they maintain offices, and who are lawfully engaged in active practice as certified public accountants.

This Board of Tax Appeals rule was not only of immediate benefit in preventing undesirable and poorly qualified "tax experts" from appearing before the board, but also had the larger effect of enhancing the prestige of the accounting profession still further. This same end was simultaneously being pursued by the leaders of the profession by persistent interest in maintaining a professional status through the agency of a national organization and by strong advocacy of comprehensive state accountancy legislation.

Professional Legislation

During the 1913–1928 period, enactment of C.P.A. legislation was widespread throughout the United States. During 1915 Arkansas, Iowa, Kansas, South Carolina, and Texas all passed public accounting laws. Kentucky followed in the next year. Oklahoma and South Dakota passed their laws in 1917, and Alabama, Arizona, and Idaho during 1919. A law was passed the next year by Mississippi, followed, in 1921, by Indiana, New Mexico, and New Hampshire. In 1923 Congress passed a law covering the District of Columbia.

The question of the constitutionality of these laws was soon raised. In the original C.P.A. law of the state of Oklahoma (1917) a provision had been inserted restricting the practice of public accounting to certified public accountants. This was the first time such a clause had been included in public accountancy legislation. The Oklahoma act specifically prohibited a person from practicing as a public accountant unless he had been certified under the provisions of the act. In the legislation of other states, on the contrary, it had been specially provided that nothing in the law should be interpreted as prohibiting anyone from practicing as a public accountant, although use of the "C.P.A." title was reserved for use only by qualified persons. The American Institute of Accountants and the state boards of accountancy waited to see the result of such clauses in the public accounting laws.[29]

The year 1924 brought forth the awaited answer. In that year the State Board of Accountancy in Oklahoma attempted to enjoin

[29] Editorial, "Oklahoma C.P.A. Law," *The Journal of Accountancy*, Vol. XXIII (May, 1917), p. 368.

a group of persons from practicing as uncertified public accountants;[30]

> that is the holding themselves out to the public, and practicing, as professional and expert accountants and auditors for compensation, without having first appeared before the State Board of accountancy and stood examination and received a certificate from that board authorizing them to engage in that business as professional accountants.

In October, 1924, the Oklahoma Supreme Court rendered a decision in the case of State *v.* Riedell, *et al.*, which held that those provisions in the Accountancy Act limiting the practice of accountancy to certified public accountants were unconstitutional.

In this case, it was the contention of the state that the act prohibited the practice of the profession by one who had not passed the examination and received a certificate of qualifications, and that the enactment of the law was a police power of the state and not violative of the Constitution or any of its provisions.

The defendants contended that insofar as the act sought to prohibit the practice of professional accountancy without a certificate, it deprived the defendants of their liberty and property without due process of law; it deprived them of their inherent right to liberty, the pursuit of happiness, and enjoyment of the gains of their chosen profession; it denied, impaired, and disparaged the inherent rights of the defendants to contract in matters of private concern and in which the public at large was not involved; it violated the Bill of Rights by creating a monopoly; it created an association enjoying exclusive rights and immunities; and, finally, the defendants contended that the exercise of police power by the state without any public necessity therefor should in no way affect the public welfare.

The Justice of the State Supreme Court, in handing down his decision, said:[31]

> We think after a careful consideration of the Act as a whole, it was clearly the legislative interest to prohibit any one from practicing accountancy who has not stood the examination and received the certificate. . . . The effect upon the uncertified public accountant is definite and certain . . . after he has devoted time, effort, and expense to equip himself as an expert accountant, he is prohibited from following that calling and those dependent upon him are deprived of the fruits of that training and investment, and he is caused to seek other employment where that investment and training are of no avail for

[30] State *v.* Riedell.
[31] *Ibid.*

their support . . . our conclusion, therefore, is that the act, in so far as it prohibits uncertified public accountants from holding themselves out as professional or expert accountants or auditors for compensation or engaging in the practice of that profession, is in conflict with the spirit and express provision of the constitution and void. . . . The defendants are not engaged in the exercise of a franchise, but a constitutionally guaranteed right.

After the State Supreme Court ruling that those provisions restricting the practice of accountancy to C.P.A.s were unconstitutional, the law was made to conform to the laws of other states by leaving out the sections which had been declared unconstitutional.

A case which added greatly to the professional standing of accountancy was that of J. Harold Lehman *v.* State Board of Public Accountancy, *et al.*, in Alabama (No. 170, October 10, 1923). In this case the plaintiff had been a practicing accountant prior to the passage of the C.P.A. law, and the board had later cited him to show cause why his certificate should not be revoked. The plaintiff sought to prevent action by the board on the ground that the law was unconstitutional. It was claimed that the determination by the board as to whether his certificate should be revoked, rested wholly within the arbitrary, uncontrolled, and unappealable judgment of the board. The Supreme Court of Alabama declared against the plaintiff on all points, but a writ of error to the Supreme Court of the United States was granted by the Chief Justice. This was the first time the highest court of the land had been called upon to pass on accountancy legislation. The Supreme Court, in turn, affirmed the decision of the Alabama Court, holding that there was no equity involved, as it could not be determined in advance of the hearing that the board would sustain the charge, adding that "official bodies would be of no use as instruments of government if they could be prevented from action by the supposition of wrongful action." [32]

This decision, for all practical purposes, placed the State Board of Accountancy of Alabama in the same category as state boards governing the practice of medicine, law, and other professions.

Professional Organization

The Demand for Uniformity

Some members of the American Association of Public Accountants considered it to be dominated by New York accountants and

[32] Editorial, "Court Decisions Affecting Accountancy," *The Journal of Accountancy*, Vol. XXXVII (March, 1924), p. 214.

therefore felt that a reorganization was necessary to form a truly national group. The first official intimation of the need for a change in the form of organization was in an address by the president, J. Porter Joplin, delivered before a meeting of the Association at Seattle, Washington, in September, 1915. Joplin called attention to the lack of uniformity in standards of both educational and professional attainments in the several states having C.P.A. laws, and he emphasized the necessity for a greater measure of uniformity and control. In line with this idea, he suggested that a study committee be appointed.

The report of this committee was submitted to the trustees early in 1916. It set forth that the founders of the Association in 1887 had hoped for a national organization that would govern the profession from within. But after the passage of several state C.P.A. laws the emphasis was shifted to state regulation, although some hopes were entertained that national regulation of public accountancy might be obtained by Congressional action substantially similar to that of the states. From the outset uniformity was found to be impossible because of the problem involved in dealing with 48 different legislatures. This difficulty was reflected in the wide variation in administration of the first two laws – in New York and Pennsylvania. In the first, the administration was vested in the Board of Regents of the State University of the State of New York; in the second, in a Board of Examiners appointed by the governor.[33]

It had been pointed out at the St. Louis Congress of 1904 that some of the state laws had serious defects. In almost every state in which there was legislation, certain accountants, some of whom were members of the American Association, were effectively prevented from obtaining certificates. Thus, a large part of the practice of public accountancy was carried on by those individuals who were not certified public accountants. This problem was aggravated because in the early C.P.A. laws there was no provision for reciprocity between states.

Unfortunately, there was a very wide range in standards both as to preliminary education and professional training for taking the C.P.A. examination. Some states required no preliminary education or training before taking the examinations, while others had very high standards involving an extensive course in accounting and several years of experience.

[33] "Accountancy in the States," *The Accountant*, Vol. LV (Sept., 1916), p. 398.

In view of these circumstances, the unavoidable conclusion of the committee was that in some states the title "C.P.A." was of low repute. The holding of a certificate from several of the states was not an acceptable qualification for membership in the American Association of Public Accountants. There was need for some kind of yardstick which could be applied fairly to accountants in every part of the country, and which would indicate to the business public in every state that accountants who had been measured by it possessed at least a reasonable minimum of preliminary education and professional training. Moreover, continued membership in a national body of accountants must be accepted as evidence that the accountant had conducted himself with reasonable regard to his obligations as a professional man.

To foster the growth of the profession and to promote and conserve the interests of the business public, it was suggested that the profession, as represented by a national organization, should assume more direct responsibility for the establishment of uniform standards of admission to and retention of membership in the organized body of the profession.

To discharge its duties properly, the American Association of Public Accountants should, the committee felt, be truly national in scope, and preferably it should have a national charter. A national charter could only be obtained through Congress, and the committee doubted that a charter could be obtained that would allow the profession to govern itself. Therefore, they suggested that the organization should be incorporated under the laws of the District of Columbia, which had provision for the incorporation of educational and scientific bodies.[34]

The Institute of Accountants

The new name of the organization was to be "The Institute of Accountants in the United States of America." The name of "Institute" was used for its significance in respect to the educational goals of the association. The addition of "in the United States of America" was suggested in order to show that the organization was to be a national one.[35]

It was hoped by some members that federal regulation of the profession would follow, establishing accountancy on a national

[34] "The Institute of Accountants in the United States of America," *The Accountant*, Vol. LV (Nov., 1916), p. 440.

[35] *Ibid.*

basis in the United States. But this hope was doomed from the outset. It would have been extremely difficult to obtain federal legislation regulating the profession.[36] A majority of the states had already passed some form of C.P.A. law. If an attempt had been made to supersede these laws with a federal law, a strong feeling against such a move would have arisen because of the traditional antipathy toward the invasion of states' rights.

Provisions of the proposal for a new organization were as follows: [37]

(1) It should be an organization embracing within its membership all of the reputable practicing public accountants in the United States.

(2) Membership should be individual rather than through other societies.

(3) The Institute, through its board of examiners, should examine every applicant for membership. Such examinations should be adapted to the needs of the profession, and be held at such places throughout the country as would reasonably meet the convenience of applicants.

(4) By virtue of the maintenance of uniform and reasonably high standards a helpful influence would be exerted by the Institute upon accountancy education.

(5) The profession of the entire country would be represented by a national organization responsive not only to the best thought of the profession but also capable of maintaining its dignity and honor.

(6) Through the maintenance of proper standards of admission to and maintenance of membership in the organization a substantial recognition of the profession would be obtained from governmental bodies.

The drafts of the bylaws and constitution of the Institute were submitted to the Association on September 19, 1916, and approved. Thus, all members of the American Association of Public Accountants in good standing on that date became members of The Institute of Accountants in the United States of America.[38] There were 1,150 charter members of the Institute. The first officers were: president, W. Sanders Davies; vice presidents, Carl H. Nau and Harvey S. Chase; treasurer, Adam A. Ross.[39]

[36] "Accountancy in the States," *The Accountant*, Vol. LV (Nov., 1916), p. 398.

[37] "The Institute of Accountants in the United States of America," *The Accountant*, Vol. LV (Nov., 1916), p. 442.

[38] The name of the Institute was shortened in January, 1917, to "The American Institute of Accountants," dropping the words "in the United States of America," because the same results were accomplished with fewer words. The new name went into effect after a two-thirds vote of the members on January 22, 1917 (*American Institute of Accountants Year Book*, 1917, p. 144).

[39] "The Institute of Accountants in the United States of America," *The Accountant*, Vol. LV (Nov., 1916), p. 444.

The American Institute of Accountants was not formed to displace the various state societies of certified public accountants nor to supplant the C.P.A. laws of the various states. It had its genesis rather in the effort to supplement both state legislation and state societies and was at least a partial remedy for the defects which had developed in the program of establishing professional standards and professional solidarity by enacting statutes and issuing certificates.[40]

A group of state societies must inevitably be characterized by differences of opinion between states, and in many cases jealousies would be expected. With all its merits, the American Association of Public Accountants was, in the last analysis, considered by some to be only a group of state societies. The American Institute of Accountants, however, with membership not conditioned upon participation in a state organization, would reflect the combined opinion and abilities of all its members. If differences of opinion arose, they would be between members – not between organizations.[41]

The newly formed Institute was constantly alert to avoid the charge of being a closed corporation, a trust, or any of the other reprehensible appellations that were apt to antagonize the American mind. It was the Institute's desire to have on its roll every accountant who was honestly engaged in public practice and who had a sufficient knowledge of accounting to justify him in offering his services to the public without jeopardy to the public interest.[42]

Up to this time each of the states that had C.P.A. laws in force prepared its own examination. This led to varying requirements and standards of admittance to the profession. It was felt by the members of the American Institute that many of the questions on the state examinations had been ultratechnical and that a man who had been in practice for a number of years could not answer them, but that a man fresh from an accounting school could do so. Also, many of the state examinations were designed to exclude rather than to admit, and questions had been formulated which, in many cases, were susceptible of more than one answer. The applicant who may have given the answer selected by the examiners

[40] Carl H. Nau, "The American Institute of Accountants," *The Journal of Accountancy*, Vol. XXXI (Feb., 1921), p. 105.

[41] "The Record of the American Institute of Accountants," *The Accountant*, Vol. LVII (Dec., 1917), p. 453.

[42] "Growth of Accountancy," *The Accountant*, Vol. LVII (Aug., 1917), p. 135.

would pass, whereas the applicant giving another answer, equally accurate, would receive no credit whatever.[43]

A Board of Examiners of the Institute was therefore appointed September 21, 1916, and Arthur W. Teele was elected chairman.[44] One of the first measures to be adopted was the provision that an applicant possessing such qualifications as the board might from time to time prescribe could, at the discretion of the board and upon the request of the applicant, be subjected to oral, instead of written, examinations in one or more subjects. The oral examinations were given to satisfy those who felt that some examination should be given to all members of the profession regardless of how long they had been practicing accounting. This action was adopted because of the difficulty in arriving at a satisfactory definition of what constituted practicing in the field of public accountancy.[45]

The first examination, under the auspices of the American Institute of Accountants, was offered on June 14, 1917, and covered the fields of accounting theory and practice, auditing, and commercial law. It was employed in California, Colorado, Florida, Michigan, Missouri, Nebraska, New Hampshire, New Jersey, and Tennessee.[46]

Simultaneously, other forward looking steps toward elevation of professional standards were being taken. In 1917 George O. May, one of the partners of Price, Waterhouse and Company, discussed with members of the Institute the question of founding a library and bureau of information, to which members might submit questions, without disclosure of names on either side, and receive opinions from other members who were qualified to answer them, as well as other general information on accountancy. May offered a subscription in the name of Price, Waterhouse and Company for the purpose of establishing such a library and bureau. This recommendation, backed by the subscription, resulted in an endowment

[43] "Institute Examinations," *The Journal of Accountancy*, Vol. XXIII (Feb., 1917), p. 133.

[44] "The Institute of Accountants in the United States of America," *The Accountant*, Vol. LV (Nov., 1916), p. 445. "American Institute of Accountants Board of Examiners," *The Journal of Accountancy*, Vol. XXIV (July, 1917), p. 20.

[45] "Accountancy in the States," *The Accountant*, Vol. LVI (Jan., 1917), p. 81.

[46] Letter from Robert L. Kane, Educational Director of the American Institute of Accountants, to James D. Edwards, dated June 2, 1952. A copy of the first examination can be found in *The Journal of Accountancy* for July, 1917.

of over $200,000 for the establishment of a library and research staff by the Institute.[47]

Subsequent measures enlarged the scope of the library and department of information services. At the annual meeting of the Council of the American Institute held in April, 1926, a report was received from the committee on endowment. This report recommended that a bureau of research be established to investigate areas of research in accounting and make its findings available to the profession. The report of the committee was unanimously approved by the Council, and the bureau was established shortly thereafter.[48] It has continued to serve its useful purpose for the profession down to the present day.

The National Association of Certified Public Accountants

Despite the formation in 1916 of the American Institute of Accountants and the achievement of effective national representation, peace in the public accountancy profession was short-lived. In 1921 the National Association of Certified Public Accountants was privately incorporated, and promptly threatened to destroy the American Institute by issuing C.P.A. certificates to those who supposedly took examinations and paid a fee. From the information available, it appears that the emphasis was placed on the payment of a fee and dues to the organization and maintenance of a bond. The bond was required in order to protect the members of the organization from suits brought against them for negligence in the fulfillment of their duties.

The purpose of the National Association, according to its articles of incorporation, was as follows: [49]

> The purpose for which said corporation is to be formed: To bring together in one common union certified public accountants who are now, or heretofore have been, engaged in the practice of professional accounting; also those who, by virtue of education, personal endowments, technical training and experience are qualified to perform the duties pertaining to professional accounting; to provide for the admission of members; and when said members shall have presented satisfactory evidence of knowledge in the theory and practice of accounting, and shall have satisfactorily passed the prescribed qualifying exami-

[47] Sanders W. Davies, "Genesis, Growth and Aims of the Institute," *The Journal of Accountancy*, Vol. XLII (Aug., 1926), p. 108.

[48] "A Bureau of Research," *The Journal of Accountancy*, Vol. XLII (Aug., 1926), p. 108.

[49] Editorial, "Certificate of Incorporation of the National Association of Certified Public Accountants," *The Certified Public Accountant Bulletin*, Vol. II (Dec., 1923), p. 4.

nations of the Association, to admit said members to the degree of certified public accountant, and to issue to such members the association's formal certificate to that degree pertaining; to safeguard the rightful professional interests and promote the friendly, and social, and public relations of the members of this corporation; and to do all else incident, appurtenant, and germane to the purpose and objects of this corporation.

This organization purported to give examinations to applicants before issuing C.P.A. certificates, but actually it was a certificate mill from which anyone, without regard to training or experience, could obtain a C.P.A. certificate for a price. In fact, during its short life, 1920 to 1923, it issued something like 3,000 certificates to those taking "examinations."

The National Association explained the bond required of the members of this organization as follows: [50]

> The National Association, representing the majority of its members' views, always has held firmly to the belief that all human nature is weak at best, and that that weakness extends even to Public Accountants, certified or otherwise. With this belief, the National Association devised and supplied to its members a fidelity bond for their protection and for the protection of the public.

This organization was soon under attack. The United States government brought suit in the District of Columbia against the National Association to prevent, by injunction, the issuance of certificates which purported to entitle the holders to describe themselves as certified public accountants. The injunction was upheld by the Court of Appeals in the District of Columbia, which based its decision on the states' rights under the Constitution to regulate the activities of a profession. If the Association, a private corporation, had been held to have the right to issue certificates, serious disagreements and confusion would certainly have resulted. The editors of *The Journal of Accountancy* asserted that injury would have been done to all holders of certified public accountant certificates properly issued by state boards.[51] Also, other corporations would have been formed which would have completely destroyed the value of the C.P.A. designation.

This decisive action by the federal government against the National Association marks the time when the states' right to license public practitioners was established. No further attempts have

[50] W. R. Anderson, "The Surety Bond," *The Certified Public Accountant Bulletin*, Vol. IV (Oct., 1925), p. 4.

[51] Editorial, "Injunction against National Association of Certified Public Accountants," *The Journal of Accountancy*, Vol. XXXVI (July, 1923), p. 30.

been made by private organizations to issue certificates, nor has a federal license been sought for public accountants.

American Society of Certified Public Accountants

Dissatisfaction with the policies of the American Institute was a factor that led, in 1921, to the organization of the American Society of Certified Public Accountants. The Institute was still admitting noncertified public accountants to membership and was not fostering the passage of additional C.P.A. laws with the aggressiveness that some members felt it should. On the other hand, some state examinations were not recognized by the Institute, and C.P.A.s in those states were excluded from membership in the Institute unless they submitted to another examination given by the Board of Examiners of the Institute. Then, too, the Institute had not only failed to take any positive action against the National Association but had made a move to abandon support of the C.P.A. certificate. Thus, a number of members of the Institute felt that there was room for an organization composed exclusively of certified public accountants, which could continually emphasize the value of the certificate and devote a major portion of its energies to development of state societies and to the promotion of state legislation. These members met in Chicago under a charter obtained from the District of Columbia and formed the American Society of Certified Public Accountants.[52]

The American Society represented the "liberal" element of the public accounting profession, and the American Institute of Accountants represented the "conservative" element.[53] Differences in emphasis and organization between the two groups were marked. The American Society sought to remedy the "lack of a national organization for expressing the will in a national way of ALL Certified Public Accountants of ALL the States." [54] One step toward this goal was the requirement that once a person received a C.P.A. certificate granted by a state, he was eligible for membership in the Society.[55] Then, too, there was a feeling among many members

[52] Robert H. Montgomery, *Fifty Years of Accountancy* (New York, 1939), p. 69. "The American Society and the American Institute," *The Certified Public Accountant*, Vol. III (Oct., 1924), p. 244.

[53] Henry J. Miller, "The American Society and the American Institute," *The Certified Public Accountant*, Vol. V (Dec., 1925), p. 157.

[54] "The American Society and the American Institute," *The Certified Public Accountant*, Vol. III (Oct., 1924), p. 244.

[55] "Constitution and By-Laws of the American Society of Certified Public Accountants," *The Certified Public Accountant*, Vol. II (Aug., 1923), p. 213.

of the profession outside the eastern area of the United States that the American Institute was being run by just a few members.[56] Consequently, the constitution of the American Society set forth that the United States would be divided into districts. Each state would have the right to elect one representative for each 50 members or major fraction thereof, and any state with less than 50 members should elect one representative. The district representatives would then elect directors annually to serve on the board of directors, which was the governing body of the organization.

It was felt by the members of the Society that the problem of winning complete public recognition and respect was greater than any other facing the public accountancy profession. The aims of the Society, in an effort to achieve this status, were: [57]

(1) to cooperate effectively with the state societies
(2) to promote the prestige of the state societies
(3) to protect and foster the state-granted certificates
(4) to educate the public generally, and businessmen specifically, to understand the importance and advantages of C.P.A. service
(5) to cooperate financially and in other ways with the state societies fighting adverse legislation, and
(6) to stimulate education of all accountants already certified and those who are working to earn their certificates.

Even as soon after the formation of the Society as 1924, there were attempts to consolidate the two national organizations. This merger, however, was not to come about for several years thereafter.[58] Both of the national public accounting organizations continued in active operation, and in many cases performed duplicate functions. In fact, many of the leading professional public accountants in practice during the tenure of the two organizations held membership in both. Individuals who held these memberships did so in good faith, although certain leaders, such as Robert H. Montgomery, did not approve of the two distinct organizations and worked diligently for a merger.

The basic issue which kept the two groups apart was dramatized at the 1925 annual meeting of the American Institute. At that time an amendment was introduced to that organization's constitution

[56] "The American Society and the American Institute," *The Certified Public Accountant*, Vol. III (Oct., 1924), p. 247.

[57] Alexander Banks, "Problems Now Confronting the Public Accounting Profession," *The Certified Public Accountant*, Vol. III (Jan., 1924), p. 20.

[58] See Edwards, "Public Accounting in the United States from 1928 to 1951," *Business History Review*, Vol. XXX (Dec., 1956), p. 462.

to restrict membership to Certified Public Accountants. An earlier attempt to bring this change about had been defeated by a very small majority. Some of the leading practitioners continued to feel that membership in the national organization should be restricted to those who had C.P.A. certificates, yet when the amendment was presented to the Institute for a vote it was overwhelmingly defeated.[59] The reason for this decisive action is not hard to discern. Some Institute members were not C.P.A.s because one of the purposes of the Institute was to admit those eligible public accountants who could not meet the requirements of state legislation. The American Society had restricted its membership to Certified Public Accountants. If the American Institute had done the same thing, the two organizations would have been practically identical.

Education for Accountancy

One issue upon which all accounting organizations were able to agree was the importance of professional education. Among the stated objectives of the American Institute of Accountants, for example, were the following: [60]

(1) To promote education in the science of accounts, and in practical application of that science, throughout the United States of America and its territories and possessions

(2) To maintain a library of works treating upon the subject of accountancy and upon related subjects and to encourage the production of such works

(3) To publish books, pamphlets, and periodicals for the increase of information and education in the science of accounts.

The American Society of Certified Public Accountants also wrote into its constitution, as one of its objectives, the following: "to stimulate education of all accountants now certified, and those who are working to earn their certificates." [61] The American Society acknowledged not only the need for instruction of candidates preparing for the C.P.A. exam but also a continuing educational program for the certified man.

Universities and technical schools, recognizing the need for training and possibly foreseeing the part which the accountant

[59] Editorial, "The Institute Rejects an Amendment," *The Journal of Accountancy*, Vol. XL (Nov., 1925), p. 355.

[60] Editorial, "For Federal Incorporation," *The Journal of Accountancy*, Vol. XXXIII (Jan., 1922), p. 39.

[61] Alexander Banks, "Problems Now Confronting the Public Accounting Profession," *The Certified Public Accountant*, Vol. III (Jan., 1924), p. 2.

would be called upon to play in the modern industrial world, readjusted and expanded their curricula to provide intensive schooling for the student of accountancy. By 1920 most of the major universities and colleges not only had courses of study in their curricula but were offering degrees in business administration with a major in accounting.[62] The increase from 52 colleges in 1910 offering such degrees, to 116 in 1916, was an indication of the expansion of educational opportunities for accounting students. It was significant, too, that 48 of these institutions were offering courses pointed specifically toward obtaining the C.P.A. certificate.[63] Further indication of the significance of university training in accounting can be seen in the formation of a national organization of instructors, formally organized at Columbus, Ohio, on December 28, 1916, as the "American Association of University Instructors in Accounting."[64]

Technical education was also being carried on with some success by correspondence. For example, the LaSalle Extension University of Chicago had over ten thousand accounting students in 1917. Another of the early accounting correspondence schools was the Walton School of Commerce. Students included not only clerks, bookkeepers, and junior accountants, but also senior accountants, auditors, and comptrollers of large corporations as well as public accountants who understood the value of continuous training in their profession.[65]

Growth of Accounting Firm Branch Offices

The final significant characteristic of the 1913–1928 period was the rapid growth in size and number of branch offices maintained by the larger accounting firms.[66] In all professions work was originally almost wholly an individual matter. The lawyer, for instance, had his offices in which he met his clients and personally served their needs. In the beginning the accountant, too, worked in a somewhat similar fashion.

[62] Editorial, "Growth of Accountancy," *The Accountant*, Vol. LVII (Aug., 1917), p. 134.

[63] C. E. Allen, "The Growth of Accounting Instruction Since 1900," *The Accounting Review*, Vol. II (June, 1927), p. 160.

[64] Editorial, "American Association of University Instructors in Accounting," *The Journal of Accountancy*, Vol. XXV (Feb., 1918), p. 155.

[65] Arthur W. Chase, "University Education of Accounting Students in the United States," *The Accountant*, Vol. LVII (Sept., 1917), p. 179.

[66] Editorial, "National Aspects of Public Accountancy," *The Journal of Accountancy*, Vol. XIX (Jan., 1914), p. 49.

The relationships thus established were ideal in many respects, but this localized, highly personal type of practice was rendered increasingly difficult by the growth in volume of business and the increasing variety and extent of engagements. Accountancy, in fact, has been and is more closely connected with change and development in the business community than perhaps any other profession. As a business service, accountancy necessarily conformed in its evolution to the necessities imposed upon it by the changing structure of business.[67]

When the financial and physical operations of business outgrew local bounds, the branch office system in public accounting became an absolute necessity. As incorporated business organizations became larger and began to open branch offices, so did the accounting firms. It was soon demonstrated that by means of such offices the accounting firms were able to serve their clients more efficiently. If a C.P.A. firm did the auditing for the home office, it usually was the policy to have the same firm audit the branch offices. Many auditors originally depended on a correspondent firm to handle the audit of far-flung offices and plants, but it was much more satisfactory to have an office of one's own firm in a given area to ensure better control over the audits. These branch offices of accounting firms were usually staffed to furnish all the services offered by the home office. At the same time they were able to trade on a national reputation, inasmuch as the home office had the responsibility of reviewing the work performed.[68]

Of the various objections raised to the establishment of branch offices, the most important was the criticism of the local practitioner who felt that the national firms were invading his territory. Nevertheless, the capital that increasingly large-scale business required was obtained in large measure from commercial banks and investment bankers in the financial centers of the country rather than locally. Almost universally the audit certificate of a public accountant came to be required, as a matter of sound business practice, in connection with capital transactions. The signature to the certificate had to be that of an accountant whose reputation was known to the lenders. In business of a purely local nature, the branch office of a nationally known accounting firm was in no better posi-

[67] Editorial, "Branch Office Ethics," *The Journal of Accountancy*, Vol. XXVIII (Sept., 1919), p. 212.

[68] T. A. Ross, "Growth and Effect of Branch Offices," *The Journal of Accountancy*, Vol. XXX (Oct., 1920), p. 256.

tion than the accountant whose practice was confined to a small territory. Local acceptance of certificates from either type of firm depended on the work each had performed locally. Generally speaking, however, the national firm's certificate commanded a much wider area of acceptance than the certificate issued by a local C.P.A. This circumstance was of great significance in an era of rapidly expanding commerce, and had the effect of making the large accounting firms still larger.

Summary

By the end of the 1913–1928 period, the public accounting profession had attained national prominence. The American Institute of Accountants was well established and functioning on a national basis, giving two examinations yearly for candidates who desired admission to the Institute. In the American Society of Certified Public Accountants, the profession had another national organization, representing the liberal element of the C.P.A. movement. The importance of both groups was reflected in the fact that many practitioners felt it worthwhile to hold memberships in both.

Under the influence of the income tax law of 1913 and the excess profits tax of 1917, the public accounting profession had grown rapidly. These laws had established a new phase of operations for the public accountant. First called in to assist in the preparation of income tax returns, the accountant was able to furnish his client other beneficial services. This fact was reflected in the rapid expansion of national and local public accounting firms. Then, too, many companies engaged auditors on a regular basis for the first time.

By 1924 all of the states and territories had enacted C.P.A. legislation. There was as yet no strict uniformity in the laws of the several states nor in the examinations given to candidates; the time had not come when the American Institute examination was to be used to establish uniform examination standards for all C.P.A.s. Neither had the exact limits of accountants' responsibilities and liabilities been established. This waited upon enactment of the securities regulations of the early 1930's. Nevertheless, by 1928 several important legal actions had been undertaken that helped clarify the accountant's obligations to clients and to the business community generally.

Throughout the period, accounting leaders, aided by the trade

organizations they had established, remained sensitive to the problems of better legislation and improved education. Marked forward strides were made in both areas. Professional standards and reputation were elevated, and – perhaps because of that circumstance – the accounting profession proved highly adaptable to the greatly enlarged and complicated demands of a fast-growing economic system.

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The Small City Industrialist, 1900-1950: A Case Study of Norristown, Pennsylvania*

Historians of the entrepreneur and of the firm encounter great difficulty in finding comparative data against which to measure their subject. Empirical studies such as this one, dealing in broad yet specific terms with the ebb and flow of enterprise in a community, provide a workable guide to what constitutes typical patterns of business development.

I

Small business in America has been characterized traditionally as "a symbol of opportunity, enterprise, innovation, and achievement."[1] Indeed, many regard small business as the very core of the free enterprise system. Although large-scale enterprise has assumed increasing importance in the twentieth century, the total number of business firms over the long run has kept pace with population growth.[2]

While the total number of business establishments, either in the nation as a whole or in any specific community, may not vary greatly from year to year, all indications point to a fairly high rate of turnover of individual firms. Data for the United States show annual birth rates of new concerns which varied from 152 to 252 per 1,000 firms over the period 1900–1941. Likewise, annual death rates ran from 115 to 230 per 1,000 concerns during these four decades.[3]

* Data for this article were drawn from a doctoral dissertation, "Manufacturing in Norristown, Pennsylvania, in the Twentieth Century," completed in 1954 at the University of Pennsylvania under the supervision of Professor Thomas C. Cochran. The University's Behavioral Research Council extended financial support to carry on the research as a part of its sponsorship of a broad interdisciplinary study of technological change and social adjustment in Norristown.

[1] A. D. H. Kaplan, *Small Business: Its Place and Problems* (New York, 1948), p. vii.

[2] *Ibid.*, p. 42. The number of establishments per 1,000 population was 15.43 in 1900, reached 18.38 in 1926, and stood at 15.10 in 1943.

[3] *Ibid.*, p. 57.

Significant statistical studies of births and deaths of enterprises have been made,[4] but there exists little specific information about the character of individual entries and terminations of small business. As one writer has generalized, entrepreneurship is chosen not only by "men of superior ability and adequate financial resources as the most satisfying outlet for their talents and initiative," but it is imposed on "people who do not find employment opportunities with established companies because of peculiarities of personality, education, or background."[5] However, we know little more than this about these entrepreneurs and their decisions to initiate, dissolve, sell, purchase, or merge enterprises, which "taken collectively represent one of the important processes by which adjustment to changing conditions is achieved, innovation is introduced, and personnel is selected for business leadership."[6] This article, based upon a case study of manufacturing industries in Norristown, Pennsylvania, since 1900, focuses attention on the ways in which new business units have been established in the community and on the reasons for discontinuance of operations of industrial concerns.

First, something of the general nature of the Norristown community and its industry should be indicated. Norristown, county seat of Montgomery County, lies on the Schuylkill River seventeen miles west of Philadelphia. Total population of the Norristown area, which includes Norristown borough, Bridgeport borough, directly across the river, and five adjacent townships, was 69,228 in 1950. Although Norristown lies within the Philadelphia metropolitan area as defined by the United States Census Bureau, the community has had an existence of its own in many ways independent of the metropolis. While some of the Norristown area's residents commute to city jobs in Philadelphia, most members of the labor force work in local industrial and commercial establishments.

[4] See Sidney Goldstein and Kurt Mayer, "Patterns of Business Growth and Survival in a Medium-Sized Community," *Journal of Economic History*, Vol. XVII (1957), pp. 193–206, a statistical study of birth and death rates of business in Norristown, Pennsylvania, based on data in city directories. R. C. Hutchinson, A. R. Hutchinson, & Mabel Newcomer, "A Study in Business Mortality: Length of Life of Business Enterprises in Poughkeepsie, New York, 1843–1936," *American Economic Review*, Vol. XXVIII (1938), pp. 497–514, is likewise based on city directories. Data showing numbers of new and discontinued businesses for the United States as a whole appear in *Statistical Abstract of the United States* (Washington: Government Printing Office).

[5] Kaplan, *op. cit.*, p. 4.

[6] Howard R. Bowen, *The Business Enterprise as a Subject for Research*, Social Science Research Council, Pamphlet 11 (New York: Social Science Research Council, 1955), p. 48.

Employment in manufacturing in the Norristown area increased over the half century from an estimated 4,500 in 1899 to almost 17,000 in 1951, with major periods of growth recorded in the first decade of the century, in the years during and immediately following World War I, and in the late 1930's and early 1940's. Industry in the area is now well diversified, although textiles, particularly seamless hosiery and woolen goods, were predominant in the community's manufactures at the turn of the century. While textiles have declined in importance, growth has taken place in basic steel production, seamless steel tubing, plastics and synthetic fibers, rubber tires, and insulation materials. Industries utilizing limestone and related minerals, like those producing magnesia insulation materials, are the only ones in the area dependent upon local raw materials. With few exceptions, Norristown's manufacturers fall within generally accepted definitions of what constitutes small business.[7]

Through the use of personal interviews with present executives and older members of the business community, answers to letters sent to other local executives and to firms no longer located in Norristown, and articles in local newspapers, data were secured on the circumstances surrounding the origins of seventy-six companies and the discontinuances of sixty-five. Complete details were not available in all cases, and both sets of data were weighted in favor of the more important enterprises that have left some record of their existence. However, all of the important industries in the community were represented. It should be emphasized that the data were not sufficiently numerous to yield a statistically valid sample of the period under consideration; rather, the analysis summarizes a number of case studies.

II

Although wage earners were able to start their own firms and handworkers in home shops were able to expand to factory industry, men with previous executive or managerial experience were more likely to create the important new enterprises in Norristown

[7] Out of 146 industrial establishments in the Norristown area in 1950, 115 had fewer than 100 employees. See Kaplan, *op. cit.*, pp. 10–22, for some definitions of small business. A proposed system of classification which recognizes the wide variations in different industries was submitted to the United States Senate Committee on Small Business in 1951. According to this classification, a concern with 50 employees might be regarded as small business in one industry, while a firm with 4,000 employees might be regarded as small

since 1900. Of the seventy-six companies whose origins were traced, thirty-five were locally founded. Fifteen of these firms were started by men who previously were executives or managers in other local companies in the same or a closely related type of industry. This category includes five men who served in other firms as presidents, three as vice presidents, one as treasurer, two as secretaries, and four as general managers or superintendents. Length of managerial experience varied from four to thirty years, with the average at about sixteen years in the cases of eleven entrepreneurs for whom data on this point were available.

Six of the group held ownership interests in the companies with which they were associated previously, but they relinquished these holdings prior to starting the new enterprises. The other nine were salaried managers, five of whom organized new firms to purchase plants in which they had been employed as managers.

Data on sources of original capital were available for eight firms started by executives and managers of local companies. Three used personal savings, but to supplement this source one entrepreneur received backing from family and personal friends and another was extended lenient terms of sale by previous plant owners. Investment of profits from previous business operations satisfied capital requirements for two enterprises. One company was backed by Philadelphia investors, one by Norristown and Philadelphia banks, and one by local investors and local banks.

Not only were executives and managers most numerous as original entrepreneurs in Norristown industry since 1900, but they generally were successful in business. Only one case of definite failure was recorded. On the other hand, three of the most important enterprises in the area were started by men with previous experience as executives or managers of other local companies. A leading local industrialist today, who had been vice president and general manager of a producer of synthetic fibers for fourteen years before starting his own company to manufacture laminated plastics in 1928, was "able to design and build new process equipment with a knowledge of the good and bad ideas tried out over the formative years of the industry."[8] On the basis of previous experience,

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in another industry. *Small-Business Programs of the National Production Authority*, Hearings Before the Select Committee on Small Business, United States Senate, 82d Cong., 1st Sess., Oct. 4, 1951 (Washington: Government Printing Office, 1951).

[8] Synthane Corporation, *Synthane, 1929-1939* (Oaks, Pennsylvania: The Company, 1939).

this entrepreneur decided to concentrate on the manufacture of quality laminated plastics for industrial applications, particularly for electronics devices and automotive parts, rather than to aim for volume tonnage of diverse kinds and grades of plastics.[9] In a similar case, the founder of a seamless steel tubing company, who had been president and chief stockholder of his firm for thirteen years before losing control of the company to out-of-town creditors in 1932, decided that his new mill, started in 1934, would be devoted exclusively to small sizes of tubing used in electronics and instruments instead of the variety of sizes of tubing produced by his previous plant.[10]

Successful local entrepreneurs from other fields of business were responsible for the founding of six manufacturing companies. All of the entrepreneurs in this category continued their interests in other types of business in the community and left the administration of the manufacturing establishments to hired managers.

John T. Dyer, Norristown's leading businessman in 1900, best represents this type of entrepreneur, although his business interests were more extensive than those of the others. After several years as superintendent of railroad construction crews, Dyer achieved his initial business success in the 1880's when he formed his own firm to construct railroad lines in Pennsylvania and Ohio. He then settled in Norristown in the late 1880's to operate a quarry and stone-crushing plant. Between 1890 and his death in 1908, Dyer organized or took over control of an ice plant and slaughter house, a shoe-manufacturing plant, a cotton mill, the town's leading dry-goods store, and a steam-heating project which utilized the steam produced at the municipally owned electric plant (which was managed by Dyer) to heat buildings in the center of town. The

[9] As P. W. S. Andrews, *Manufacturing Business* (London, 1949), points out, where special factors such as low labor costs "do not apply and where, nevertheless, the smaller businesses are surviving relatively profitably, the reason will usually be found to be the fact of the smaller business being able to specialize more effectively than the bigger business is able to do, in effect concentrating more upon the sections of the market which are relatively more profitable for it. In this connexion, it is necessary to recognize that what is ordinarily and conveniently thought of as a single industry is usually producing a group of products, which are alike in that they emerge from the same sort of technical processes, but yet differ significantly in quality. . . . The smaller business is frequently a lot freer to 'go for' a particular section of the common market than is the big business, whose very position will make it necessary for it to sell to the market as a whole, taking what orders come its way." (Chapter VII.)

[10] James P. Boore, *The Seamless Story* (Los Angeles, 1951), pp. 205–206.

local press reported that "almost every important enterprise that had its inception in Norristown in the 1890's and opening years of the present century had Dyer as an officer." Even in companies where his financial interests were of little significance, as in a local hosiery firm, Dyer assumed a place on the board of directors because of his prestige in the business community.[11]

As might be expected, profits from previous business operations supplied original capital in most cases. In at least four instances, though, entrepreneurs also offered stock for sale to local investors. Personal savings seem to have been used by one entrepreneur who was an officer of a local bank.

Except for Dyer, local entrepreneurs from other types of business were not particularly successful in operating manufacturing plants. Two of the companies shut down operations within two years. In three others, ownership was transferred gradually to managers. Even in the case of Dyer's cotton mill (the enterprise counted here), the company went out of existence shortly after Dyer's death.

All six of the enterprises started by successful local entrepreneurs enlarging their business interests were founded in the first three years of the century. Since Dyer's time, there has been no figure in Norristown business comparable in terms of the broad scope of interests. One explanation of this may be that in the community's growing industries, such as plastics, characterized by complex technical processes and continual changes in types of products, knowledge of the ways of the industry is more important than a general business sense. As Professor Cole has pointed out in an article on the institutional setting of entrepreneurship, the long-run increase in America in the quantity of information available to businesses may have put a greater premium on "men with analytical power," than on the "drive" or "audacity" which seems to have characterized men like Dyer.[12]

Seven of the locally founded companies were formed by men with experience as wage earners in other local plants in the same or a closely related type of industry. One entrepreneur, for example, started his own hosiery company in 1939 after the knitting plant in which he had worked for eighteen years closed down. In another case, an employee of a local knitting machinery plant formed his

[11] Norristown *Daily Register*, Dec. 5, 1908. Norristown *Times Herald*, Nov. 14, 1951. Minute Book, Board of Directors, Rambo and Regar, Inc.

[12] Arthur H. Cole, "Entrepreneurship and Entrepreneurial History: The Institutional Setting," in Harvard University Research Center in Entrepreneurial History, *Change and the Entrepreneur* (Cambridge, 1949), p. 101.

own hosiery company in 1904 to use improved machinery which he had developed. Of the three entrepreneurs here for whom sources of original capital could be determined, two received backing from local investors and one used personal savings. While the companies founded by workers usually remained small, they were generally successful in surviving.

Similar to the wage earners were the three handworkers who expanded operations from home industry to factory enterprise. In one instance, a machinist began on a small scale on his father's farm in the early 1920's the manufacture of concrete fence posts similar to those which he had observed in use in the Middle West and which were not then sold in the Norristown area; after this start, he undertook the manufacture of other kinds of concrete products. This entrepreneur, the only handworker for whom data on capital were available, obtained a loan from a local bank to purchase his original equipment. The original entrepreneurs are still operating two of the three small companies, while one sold his plant after eight years in business.

Thus far, all of the enterprises considered were started by Norristown residents. However, in four cases, out-of-town men moved to Norristown to undertake the establishment of enterprises. Two came from Philadelphia, one from Trenton, New Jersey, and one from upstate New York. Two of the out-of-town entrepreneurs were previously operators of independent businesses of a similar kind, as in the case of the owner of a small insulation concern in Philadelphia who organized a company to manufacture magnesia insulation in 1903, the year of expiration of basic patents in the field. Two other entrepreneurs were employees of companies in a similar line of business. Availability of natural resources determined the location of the magnesia company, availability of buildings the location of the other three. For capital to start operations, one out-of-town entrepreneur used profits from previous business ventures, one personal savings and a loan from a Philadelphia bank, and one personal savings and backing from friends. Three of the entrepreneurs successfully launched their new firms, but the fourth, who purchased in 1903 a glass works unsuccessfully operated by local owners, failed within six months.

III

In addition to the firms started in Norristown, in most cases by residents of the community, industry in the area has grown over

the half century by migration of established companies and by the location of branch plants. Of the seventy-six companies studied, eighteen were migrants and twenty-three were branch plants.

The community, however, has exerted little organized effort to attract industry. While the Trades League, an organization of merchants and manufacturers founded in the 1890's, endeavored to promote Norristown industry in the first few years of the century, its specific efforts noted in the local press usually were not successful.[13] Since the demise of the League before World War I, neither the Norristown Chamber of Commerce, organized in 1910, nor the Manufacturers Association of Montgomery County, founded in 1908, has been concerned with attracting new industries to the community.

In the early years of the century, the Bridgeport borough council attempted to attract industry by a law exempting new manufacturers from local taxes for ten years if they did not compete with existing plants in the borough. None of the other governmental units within the Norristown area appears to have extended any tax inducements at any time.

Of the eighteen independent migrating companies for which information was available, fourteen were located previously in industrial sections of Philadelphia, three in other communities within the Philadelphia metropolitan area, and one in central New Jersey.

Usually, more than one reason accounted for the decision to relocate in Norristown. For the companies previously located in Philadelphia, need for a larger plant to expand and difficulty or impossibility of obtaining a plant in the city was the reason most frequently indicated for moving *from* the city. Thus, it is not surprising that among the factors accounting for movement *to* Norristown, rather than to some other community, availability of suitable buildings and plant sites was the most important. This was indicated in fourteen of the cases. More specifically, low cost of the Norristown buildings, either on a rental or purchase basis, seems to have been the impelling reason for at least seven of these enterprises, as in the case of a Philadelphia pretzel-maker who purchased and remodeled an old car barn in Norristown in 1937. Opportunity to obtain plants with railroad sidings was indicated for three com-

[13] For example, in 1907 local investors contributed $20,000 toward a proposed fund of $50,000 to erect a factory building for an out-of-town automobile manufacturer who proposed moving to Norristown, but the company ultimately decided to remain at its Bryn Mawr location. Norristown *Register*, March 20, March 21, April 5, 1907.

panies. In another case, a local factory was the only suitable building immediately available in the Philadelphia metropolitan area to replace a plant destroyed by fire.

Personal factors, such as preference for Norristown as a place of residence, played a part in the decisions of at least five Philadelphia companies to relocate in Norristown. Executives of four of these firms had lived previously in Norristown, and they and their families desired to return to the community.[14]

The community's railroad facilities attracted four companies, a favorable local labor supply two others. However, one executive, who moved his metal fabricating firm to Norristown from Philadelphia in 1941, maintained that transportation problems and the lack of an adequate supply of skilled labor in the Norristown area in comparison with Philadelphia were offset only by the availability of a cheap plant site.

IV

Branch plants operated by out-of-town companies have grown in importance in Norristown industry. In 1900, almost all of the manufacturing plants in the area were operated by local owner-managers. By 1950, branch plants accounted for almost a fifth of the industrial establishments in the Norristown area and over a quarter of the total number of employees engaged in manufacturing.

Of the twenty-three branch plants for which data were available, seven were established by Philadelphia companies and six by New York City firms. Main plants or offices of the others included three in other parts of Pennsylvania, one in Delaware, two in upstate New York, one in Connecticut, two in Ohio, and one in Illinois.

Acquisition of an existing local enterprise was the method used by fourteen of the twenty-three out-of-town companies to establish branch plants. Usually operations in the local plants were expanded. Specific reasons for acquisition varied. For example, purchase of local bakeries provided a foothold in the area for three baking companies which expanded operations with branch plants in the 1920's. Three out-of-town companies with investments in local

[14] M. L. Greenhut, *Plant Location in Theory and in Practice* (Chapel Hill, North Carolina, 1956), p. 277, points out the importance of personal considerations in location decisions of a group of Alabama manufacturers. In some cases, "the personal considerations were unrelated to cost or sales advantages; they expressed themselves mainly in the sense of offering psychic income."

enterprises gained control when the local firms experienced financial difficulties. In another case, opportunity to acquire a going concern with a good name in the trade was indicated by a Philadelphia apparel manufacturer who in 1943 purchased a local shirt company.

Companies establishing branch plants in five cases purchased or leased older factory structures previously used for other industrial purposes. For example, a large paper company purchased in 1947 a building which previously housed a manufacturer of lighting fixtures.

Proximity of Norristown to the Philadelphia metropolitan area market was indicated as the reason for location of nine plants. For five of the companies locating in Norristown to serve the Philadelphia area, three bakers and two producers of commercial gases, the nature of the product limited the size of the market area which could be served from one plant.[15] Four other companies established Norristown plants to serve a somewhat wider eastern market, although the large Philadelphia market nearby was a factor of consideration, as in the case of a national rubber manufacturer that established a tire plant in the Norristown area in 1936.

In four instances, out-of-town companies acquired Norristown area plants to obtain a source of supply of goods which they wholesaled. This was true of the H. B. Claflin Company, New York wholesaler, which acquired a local woolen goods producer in 1910 as part of a wholesaling-manufacturing-retailing organization.[16] A need for enlarged supplies of semifinished materials used in later stages of production accounted for the decisions of two Philadelphia companies to establish branch plants in Norristown, as in the case of a container producer who purchased a Bridgeport paper mill in 1950 to obtain a source of paper board for its Philadelphia plants.

A trained labor supply attracted four companies. Availability of natural resources accounted for establishment of plants by three manufacturers of insulation and refractory materials. Bridgeport's offer of local tax exemption for ten years for new manufacturers may have constituted an inducement for one company in 1901.

[15] Bread and bakery products are distributed daily or more frequently to retailers. Commercial gases are shipped in heavy cylinders by truck to industrial users.

[16] For a brief history of the Claflin Company, see N. S. B. Gras, *Business and Capitalism: An Introduction to Business History* (New York, 1939), pp. 201-206.

V

Thus far attention has been centered on how and why new industry was created in the community. Over the half century, almost as many firms discontinued as entered business in the Norristown area. Under what circumstances and for what reasons did the sixty-five enterprises for which data were available go out of business in Norristown? [17]

As might be expected, change of ownership accounted for a substantial number of the discontinuances. In twenty-seven cases, the enterprises were sold as going concerns to new owners.[18] Lack of a successor to manage the company figured in nine of the transfers of ownership, in five of which the sale was made by heirs after the death of key entrepreneurs and in four by owners desiring to retire from business. Disagreement between two owners then running an enterprise led to the decision to sell in another case. Seven firms were consolidated with other local companies, while three were purchased by out-of-town companies which established branch plants.

In most of these cases, the enterprises appear to have been operated with at least a fair degree of success prior to sale. The transfers were made usually on terms favorable to previous owners. For example, a local baker, after selling his plant in 1924, assumed an executive position with the national baking concern and became chairman of the board of directors. Likewise, when an area steel company acquired the iron furnaces of a local concern in 1911, owner-managers of the latter firm obtained stock and top management posts in the former.

However, in three cases transfer of ownership averted bankruptcy and receivership at a time of financial difficulty for the company. Ownership of a seamless steel tubing concern, for example, was transferred to its leading creditor when depression difficulties in 1932 threatened financial solvency. Four other companies took advantage of opportunities to sell what appear to have been run-down plants, as in the case of a radiator plant which was characterized by present owners as "non-competitive" under the old management.

Of the thirty-eight establishments which ceased operations, eleven

[17] Twenty of the sixty-five companies are enterprises whose origins or location were considered in the previous sections.

[18] More than a third of the business discontinuances in the United States in the period before World War II were attributed to change of ownership, according to Kaplan, *op. cit.*, p. 56.

went through bankruptcy proceedings. In three cases, companies failed during periods of general business depression, in 1908, 1930, and 1933. However, in one case, that of a hosiery producer, depression difficulties following the Panic of 1907 seem to have brought to light previous mismanagement by executives, as the receivers charged in 1908 that the company had been insolvent for over two years. In the other two cases of bankruptcy during depression, involving a woolen goods firm and a meat packer, operations seem to have been characterized by unprogressive management which was not able to withstand the shock of adverse economic conditions. Lack of sufficient working capital was reported to be the cause of bankruptcy of three other firms, lack of experience of the original entrepreneur in one, while no specific reason could be found for failure in the other four companies.

Eight other companies voluntarily liquidated and closed their plants. Liquidation occurred after the death of key entrepreneurs in two cases. Desire of entrepreneurs to retire resulted in discontinuance of two others. In another case, a small local miller discontinued milling in 1920 and concentrated on operation of a commission merchant warehouse. In three instances, Norristown enterprises were absorbed by out-of-town companies and the local plants were closed, like the tin-plate producer who entered a national tin-plate trust in 1901, after which machinery in the local plant was removed.

Adverse economic conditions in the 1930's provided the occasion for three old companies to discontinue operations, probably on the verge of bankruptcy. However, depression-created difficulties merely climaxed long-term decline in the three firms. Change in fashion affected both a producer of cheap ingrain weaves of carpets and a manufacturer of a type of tack used in fastening floor covering.[19] Apparently neither company made a serious attempt to shift to other types of products. A woolen cloth manufacturer, who went out of business in 1937, reportedly was using in the 1930's machinery that had been installed in the 1880's.

Five companies relocated in plants outside of the Norristown area. Four of the firms, operating relatively small enterprises, moved to nearby communities, probably for personal reasons. The fifth

[19] According to Victor S. Clark, the "displacement of cheaper weaves like ingrains by more expensive fabrics and the substitution of rugs for continuous floor coverings" was a development which began early in the century. *History of Manufactures in the United States* (New York, 1929; 3 volumes), Vol. III, pp. 207–208.

case was that of a local hosiery company, which closed its mill in 1929 to move operations to a new plant in Alabama.

The closing of branch plants operated by out-of-town companies accounted for eleven discontinuances. In six cases, business conducted in the Norristown area was transferred to existing plants operated by the companies elsewhere. For two cigar companies, for example, mechanization of the industry in the 1920's resulted in consolidation of operations in a few plants. Among the other reasons for closing branch plants were: failure of a local bakery plant to show a profit in the face of cut-throat competition in the Philadelphia market, losses incurred under absentee management of a woolen goods plant, bankruptcy of the parent concern of another woolen goods plant, and lack of need for products of the branch plants because of depression conditions in the cases of a rubber reclaiming plant and an iron foundry.

VI

By way of summary, it may be useful to restate what seem to be the most significant points suggested by this study of origins and discontinuances among industrialists of Norristown:

(1) Men with previous executive or managerial experience in the same or a closely related type of industry were the most numerous and most important original entrepreneurs in Norristown manufacturing, although in the early years of the twentieth century successful local entrepreneurs from other fields of business were active in forming industrial enterprises. Personal savings, profits from previous business operations, and backing by local investors were the most prevalent sources of original capital. However, the latter two types of sources were used largely by entrepreneurs from other fields of business and thus were most important in the early years of the century.

(2) For established companies which migrated to the Norristown area, the reason for relocation most frequently indicated was availability of a suitable plant needed because of expansion by the company. Access to area or regional markets played a more important role in the decisions of out-of-town companies to locate branch plants in Norristown; however, opportunity to obtain a suitable plant was also a significant factor, as evidenced by the number of times existing local companies were acquired.

(3) Sale of the enterprise as a going concern to new owners accounted for between one-third and one-half of the discontinu-

ances. Decisions to sell or shut down operations resulted, in about one-third of the cases, from the death or retirement of key entrepreneurs.

Although the ultimate objective of "research on the business enterprise is to make possible the construction of an improved, i.e., more useful, theory of business behavior,"[20] many empirical studies of entrepreneurs and enterprises in concrete community and industrial situations are necessary before adequate over-all generalizations can be drawn.

[20] Bowen, *op. cit.*, p. 74.

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A Review Article

The American Business System: A Historical Perspective, 1900–1955. By Thomas C. Cochran. Cambridge, Harvard University Press, 1957. Pp. viii + 227. $4.75.

Historians have awaited with great interest a new endeavor to tell the story of business in America — not in a narrow or technical way, but broadly related to the social environment of which business is one part. Economic historians, business historians, sociologists, and many other specialists have gathered extensive data on phases of business behavior, and are continuing to do so at a commendably prolific rate. The job of synthesis, however, has been neglected, perhaps because of its formidable demands. No two scholars would be likely to agree on the content and emphasis of any volume, such as the one reviewed here, that describes the development of American business. This circumstance does not detract from either the usefulness of the effort or the value of the criticism. The increasingly specialized nature of scholarship demands both the stimulus of a general thesis and wide reactions to that thesis if historical perception is to be kept abreast of accumulating evidence.

There is an ancient, intermittent, and inconclusive war between the economic theorists and the economic historians in which, I fear, this review will be a minor skirmish. Professor Cochran is an economic historian. He has written what is essentially an elementary economic history of the United States from 1900 to the present, with especial reference to business as the cardinal institution of the system. It is written in a clear, straightforward, if somewhat dehydrated style, and it is aimed, I would judge, at the high school senior or the college freshman whose teachers want to give him a broad view of the role and the environment of business – especially industrial business – in the past five and a half decades. It would have been still more useful for this purpose if it had quite frankly been an economic history, and had added a chapter or two on the rise of the labor

movement, or agricultural policy, and of government economic policy generally, instead of treating these topics (quite legitimately, of course, within the limited framework) as merely part of the setting of business enterprise. There are minor faults; in spite of a proper prejudice against fussy documentation, one would have liked to see a little more attention paid to the identification of sources. (Whose "rough estimates," for instance, say that the share of national income received by the top 10 per cent had been increasing since 1910 and had reached nearly 40 per cent of the total by 1929? P. 99.) There are too many large and rather dubious generalizations, e.g., "after the Roosevelt inauguration (of 1933) new reforms, regulations and taxes continued to inhibit the risk taking activity of entrepreneurs and investors" (p. 113). (In fact investment rose sharply from 1933 to 1936.) There are too many simple errors, whether mere slips which would still be confusing to the student (such as crediting the U.S. Chamber of Commerce with the *Survey of Current Business* [p. 215]), or of a more serious kind. For instance, taxes are said to consume a third of national income in 1933: total expenditure of *all* governments (federal, state, and local) was $8 billion out of a national income of $40.2 billion; from 1933 to 1934 federal, state, and local debt increased by $5.3 billion, which would suggest that tax collections cannot have been more than $3 or $4 billion – say 10 per cent of national income, and of course a still smaller percentage of national product (above figures from the Economic Report of the President, January, 1957). Gross errors like the above are not numerous; there are, however, innumerable statements and generalizations which are debatable, but which are presented as straightforward fact. Perhaps this is inevitable in a more or less popular, expository work. It is not unreasonable to ask of historians, however, that they be a little finicky!

In spite of these defects, this is a good book of its kind. The question is whether this is a good kind, and especially whether economic history of this discursive, literary, generalized type really gives either the student or the general reader the best image of the period. The most fundamental complaint is the absence not merely of quantitative data but of what one might call the quantitative "sense." There are no charts, and only one table (on p. 109), and that is seriously misleading as it gives absolute figures for the number employed in five sectors of the economy without giving the total, so that the reader has no way of calculating, even if he wishes, the proportionate changes, which are really significant in the context. What might be

called the "great series" – Gross National Product, its components and distribution, together with the price levels – surely form the clothesline on which virtually all the economic history of this period must be hung. Granted that a knowledge of the quantitative data is not enough, and that the skeleton of history must be hung decently with the flesh of names and dates, laws and events, motivations and personal achievements, still *without* the skeleton the flesh is as slippery and amorphous as an oyster.

Another fundamental complaint of the theorist against the historian is the use of what might be called "implicit theory." This usually goes hand in hand with a somewhat negative attitude towards existing, explicit theory. Thus, the work under review opens somewhat ominously with the remark (p. v): "Well accepted general theories regarding the operation and control of the American economic system at mid-century are lacking." This in a century that has been remarkably fruitful not only in the formulation but in the wide acceptance and use of general theories! One need mention only the Keynesian revolution, operations research, game theory, imperfect competition theories, and so on. Some of these are undoubtedly less widely accepted and used than others, but who can doubt that the extraordinary change in atmosphere in economics in the past thirty years is due to the formulation and wide acceptance of general theories which happened to give *some* sort of insights into the major problems of the day. This change in the *intellectual* climate is one of the most important "facts" in the economic history, and indeed in the business history of the period: yet it is nowhere explicitly discussed in the book.

As we cannot have any history without theory, however, the historian who rejects or neglects the explicit theory will often have some home-brewed theory implicit in his generalizations. Because the theory is implicit it is hard to criticize, especially in a short review. To take but a single example: a sentence on p. 138 (the period referred to is the 1940's): "Shortage of labor and a government friendly to collective bargaining produced a sharp wartime rise in real wages that led to both higher consumption and higher production in the postwar years." The amount of implicit theory involved in an apparently simple sentence like this would take almost a book to unravel. Why was there a shortage of labor? Can collective bargaining really increase real wages? (Wages of unorganized labor rose much faster than wages of organized labor in this period, a fact which is nowhere mentioned.) How can an increase in real wages *in itself*

lead to higher production and consumption: or isn't it the higher production that leads to increased real wages? How much of the increase in real wages is due simply to rising national income (the *proportion* of national income going to labor *fell* sharply from 1933 to 1943, another fact which is not mentioned). Granted that explicit wage theory is in a deplorable state, is Dr. Cochran's implicit wage theory any better! The whole work, I fear, leaves the impression that whatever may be the condition in other minds, a general theory is certainly absent from the mind of the present author, and the work suffers in consequence. We still await, alas, an economic history which shall be constructed around a good quantitative and theoretical skeleton.

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° ° °

This book is rather a puzzle for a reviewer. The author has done a great deal very well. His purpose, broadly, was to provide an interpretative history of businessmen and business in this century. He brings to the task insights that are always shrewd and on occasion brilliant. He is a lucid and economical writer with a gift for illustration. His task requires a good deal of economic analysis, and this he handles skilfully and with a skeptical view of the stereotypes. He takes a friendly and sympathetic view of businessmen without making any concessions to the archaic and pompous liturgy of the luncheon speeches. He shows, incidentally, what a hideous mistake business orators and other spokesmen make in leaving these social documents behind them. Thus from Henry Clews: "In the course of evolution and a higher civilization, we might be able to get along comfortably without Congress, but without Wall Street never"; and from Paul Litchfield (in a statement which, if possibly true, begs some remarkable questions of proof and timing): "I do not think there is any question that America would have worked its way out of that depression if the Hoover Administration had remained in office . . ."; or there was Bruce Barton with his immortal picture of Christ in the image of the business executive.

On the other hand, one can fairly say that Professor Cochran should have done either a great deal more or quite a bit less. He divides his book into two periods – 1900-1930 and 1930-1955 – and in each of these he attempts to evoke the main currents of business and economic change. Some of this, depending on the topic, he does

exceedingly well. The transition from the attitudes of the nineteenth-century entrepreneur to the mid-century executive is very good. It is epitomized by Carnegie's advice to a group of aspiring young tycoons at Cornell – the businessman "is a master. . . . Boss your boss just as soon as you can" – and that of a modern railroad executive, "Industry and cooperation are very important. . . . Cultivate and develop a pleasing and friendly personality." On the development of the public and political attitudes of business and (though more sketchily) on the changing cultural impact of the business system, he is also interesting.

But elsewhere one is less satisfied. His treatment of technological change, at least so it seems to me, lacks a framework. As the result, these sections seem very often to be a list of inventions, innovations, and changes, and one has the uneasy feeling that another scholar would come up with an equally persuasive but quite different list to show what had changed. The author's treatment of changing business structure and economic climate – the growth of the trusts and the trade associations; the merger and holding company movements; the role of the antitrust laws; the appearance of the regulatory agencies; and the emergent concepts of fiscal and monetary management – has yet another fault. The author simply allows himself too little room for what must be said if anything at all is to be said. One cannot say anything about the antitrust laws or Keynes in a paragraph or two. Condensation and impressionism unquestionably have their role in history. And on occasion, as in his chapter on "The Era of the Bankers," it seems to me that the author brings it off. Elsewhere I don't quite think he succeeded.[1]

Professor Cochran's central thesis, if one may separate it from the

[1] He also makes occasional errors. Few would agree with him (page 8) that farmers were "well organized" at the end of the last century. There were organizations, but with the exception of the Grange these were tenuous affairs not destined to last very long, and by then the Grange itself was in political decline. He is also in error (page 150) in saying that the American Farm Bureau Federation was a central Washington lobby for business organizations in the thirties. Though it was suspected, not without reason, of doing some dubious business lobbying in the twenties, there must be some mistake here. And if economists are right in insisting that their few moments of great drama should, like Pickett's Charge, be treated meticulously, we may complain about his treatment of the stock market crash. The decline of Tuesday, October 29, was much worse than on Thursday, October 24, the first day of the *debacle*. On October 24 the bankers met, not early in the morning, but at noon. And so far as *that* day was concerned — Professor Cochran does not say anything that is specifically to the contrary — their efforts to support the market were quite a success.

overlay of historical narrative, is that in the American business system entrepreneurship has given way to organization and that, within broad limits, the pursuit of profits has become secondary to the preoccupation with security. At the same time businessmen, subject to the liturgical lag, have made their adjustment to the public and political environment appropriate to this change. (He perhaps might have argued that the Eisenhower Administration represents not only a coming to terms with the political environment but its appropriation.) To have remained more closely with this theme would have produced a more compact and, I think, rather more effective book.

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BOOK REVIEWS

The Crisis of the Old Order, 1919–1933 (Volume 1 of *The Age of Roosevelt*). By Arthur M. Schlesinger, Jr. Boston, Houghton Mifflin Co., 1957. Pp. xiv + 557. $6.00.

It is not my purpose to attempt a complete and comprehensive review of Professor Schlesinger's book, since this is neither the place nor the time to do so. The book is not business history, nor is the author a business historian — a cursory investigation of the text will demonstrate these points amply. Much of it is devoted to strictly political maneuverings, and some to political pamphleteering. There is a good deal of social and cultural history, and the last third is taken up predominantly with a biographical sketch of Franklin D. Roosevelt up to the time of his first inauguration. These features have been reviewed extensively and competently elsewhere.

What does concern us here is that Schlesinger is dealing with a period of peculiar importance in the history of business and the businessman. In the 1920's businessmen stood at an astonishing peak of prestige in American life, only to have the depression produce a violent reaction which made them the scapegoats for all the nation's ills. Without a doubt the idolization of the businessman in the 1920's was overdone; on the other hand, it is entirely possible that the subsequent condemnation was overdone too. In any event, it is clearly incumbent on a historian of Professor Schlesinger's stature to base his interpretation on a thorough examination and careful evaluation of the evidence.

This, regretfully, he has not done. Over the last several years, there has been a substantial amount of research and writing both on the history of business and the nature of the American businessman. If Schlesinger is aware of this work, he gives no indication of it in his book. When he discusses such an obvious figure as Henry Ford, for example, his only references are to Harry Bennett, *We Never Called Him Henry* and Samuel Crowther, *A Basis for Stability* — neither of which a business historian would regard as the most satisfactory works he could have found on the subject. The result appears in sweeping assertions like "But, in a sense the most influential of all business leaders was Henry Ford; and Ford was the more revealing, because, while a great producer in the old tradition, he nonetheless led the whole business community to think in the new terms of promotion, of distribution, and of statesmanship" (p. 73). This statement may have some applicability to the Ford of an earlier day. In the twenties, however, Henry Ford was rapidly becoming a figure of legend rather than an active leader of the business community.

In his general appraisal of business in this era, Professor Schlesinger does acknowledge that there was a solid basis of industrial and technological advance for the boom of the 1920's. This admission requires five lines at the top of page 67. He also discusses the emergence of a concept of business responsibility and an ideal of service, but he manifestly regards these as predominantly hypocritical. The impression one gets is that the typical businessman of the period was willing to utter fine sentiments but fundamentally had no higher aspiration than to make a fast buck. Of the constructive steps that a good many business firms took in the direction of improved labor relations, employee welfare plans, and profit-sharing, there is not a word. In

any event, none of these schemes went far enough, but the fact that they existed at all suggests that the businessmen had more "social consciousness" than they have been given credit for.

It is more dramatic, of course, to have the issues sharply drawn in primary colors, but history cannot always be written this way. The chapter on "The Struggle for Public Power," for instance, reads like a melodrama, featuring a thrilling contest between the Good Guys (the public power advocates) and the Bad Guys (the private utility companies). One need not be an apologist for Samuel Insull to feel that the power problem is somewhat more complicated than this, or that Will Rogers is not necessarily the ultimate authority on the holding company. Moreover, if Professor Schlesinger is going to charge the National Electric Light Association with suborning both colleges and their faculties, he ought to cite chapter and verse instead of making a sweeping accusation supported only by a general reference to a Federal Trade Commission report as interpreted by three antiutility writers.

Perhaps the businessmen can take some consolation in the fact that when they are stacked against other groups in American society, they do not come out too badly. Some prominent labor leaders come under the Schlesinger anathema also. William Green is described as "a comfortable man with the air of a small-town banker, rimless glasses on a placid face, a large gold watch-chain in his vest, and a diamond ring on his finger, an Odd Fellow and an Elk . . ." (pp. 112–113). These features are apparently undesirable, although it is not quite clear why; presumably they do not qualify as "liberal" according to the rubric of the Americans for Democratic Action. The comment on John L. Lewis is even more curious: "But John L. Lewis, the UMW's powerful and crafty president, a believer in free enterprise and the Republican party, beat off his progressive critics and established firm control" (p. 112). Does this statement mean, as it seems to, that a "progressive" can be neither a Republican nor a believer in free enterprise?

The businessmen also emerge fairly creditably when they are compared with the intellectuals. This result, I am sure, is unintentional, and it is a tribute to the author's scholarship. His sympathies are definitely with the intellectuals, but he is too good a historian to violate the canons of his craft, and he has to present them as they were — on the whole a depressing group, bewildered, rootless, and pathetically anxious for someone to tell them what to think. If American life has suffered in recent years from distrust of the intellectual, some of the blame has to be borne by the intelligentsia of the twenties and early thirties who found the American scene distasteful but had no better remedy than to run away from it. Some withdrew into cynicism; for others, as Schlesinger points out, "What began as an alienation from business culture was ending in some cases as an alienation from democracy itself" (p. 150).

The result was that the crisis of the depression witnessed a hysterical stampede of the intellectuals to left-wing philosophies — a stampede in which, as the author makes clear, neither industrial labor nor the farmers, for all their distress, showed any appreciable disposition to participate. Professor Schlesinger also admits that the "liberal" teachings of the previous decade failed to meet the fundamental problem of how, in the planned economy "political opposition was to be maintained against an all-powerful state"

(p. 211). Too many of the intelligentsia who had strained at the gnat of a business culture were able to swallow the Communist camel without difficulty.

By contrast the businessmen appear as stable and responsible citizens; bewildered by the depression, yes, but so was everyone else, and if the businessmen had no solution for the crisis, at least they retained their faith in the recuperative powers of a free society. The author mentions a number of fascist-type organizations which appeared during the crisis. None of them ever amounted to much, and there is no evidence that they attracted favor or encouragement from the business community. Nor was business as completely bankrupt of ideas as the author implies. One businessman, Alexander Legge, was among the first to preach crop control as the only effective way of dealing with the farm problem; another, Gerard Swope, proposed a plan for the organization of industry which anticipated the NRA and might, if adopted, have avoided the fantastic administrative confusion of that unhappy experiment.

This is not, to be sure, the impression that the author intends to convey, although it is a permissible interpretation of his own data. In his chapters on the depression Professor Schlesinger has slipped the leash on his emotions and his partisan leanings. He was able to shed a sentimental tear for Harding, but for Herbert Hoover, a bigger man facing an infinitely more difficult situation, he has no pity whatsoever. He goes out of his way to identify Major Eisenhower as General MacArthur's aide at the time of the Bonus Army incident, although what he expected either officer to do other than obey a constitutionally issued order is an unexplained mystery. He sneers at J. P. Morgan appealing to people to help each other while his two butlers listened in another room, but there is no reference to Morgan's dignity and self-control when the Pecora Committee allowed him to be victimized by a cheap publicity stunt.

The feature I find most objectionable is what appears to be deliberate selection of evidence to depict the business community as callous and indifferent to the sufferings of the depression's victims. This is simply not so. There was an undeniable reluctance to break away from familiar precepts by invoking the intervention of the federal government, especially in the field of relief; there was undoubtedly more delay than there should have been in appreciating the full seriousness of the problem. These were lapses, but they do not add up to a justifiable charge of inhumanity. Schlesinger refers to Roy D. Chapin's last-minute effort to stave off the banking crisis. If he had looked at the Chapin Papers, which are freely available in the Michigan Historical Collections at Ann Arbor, he would have seen a deep personal concern for the plight of Detroit's unemployed — much deeper, for instance, than that of the Communist organizers who deliberately precipitated a clash between unemployed workers and the Dearborn police. Chapin quite literally worked himself to death pulling the Hudson Motor Car Company through the depression, trying to disentangle the affairs of the Union Guardian Trust Company, and, among other things, serving as a director of Detroit's Community Fund.

It may make for a higher dramatic effect to blacken Franklin D. Roosevelt's opponents before bringing him on the stage, but it does not necessarily make for better history. If Schlesinger believes that Roosevelt needs this kind

of introduction, then he has less confidence in his hero than I think he has. If not, then it may not be amiss to suggest that the historian who has to appraise human blunders and failings should remember with St. Paul that: "And now abideth faith, hope, charity, these three; but the greatest of these is charity."

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South Pacific Enterprise: The Colonial Sugar Refining Company Limited. A. G. Lowndes, ed. Sydney, Angus and Robertson, Ltd., 1956. Pp. xvii + 500. 42 s.

The Colonial Sugar Refining Company is one of Australia's oldest and largest industrial undertakings. It refines 92 per cent of the sugar consumed in Australia and all of that consumed in New Zealand. Its mills crush about 30 per cent of the Australian cane crop and all of the Fijian crop. It engages in many ancillary activities: in the production of building materials, chemicals, pharmaceuticals, and in shipping. Currently it employs about 10,000 persons. "Financially," reports an important Melbourne brokerage firm, "the company is exceptionally strong and the results are very conservatively stated."

South Pacific Enterprise tells the official story of the Colonial Sugar Refining Company, describes its policies, and relates its position to that of the sugar industry of the world. The history of the company is depicted against the background of social, political, and economic developments of the past century.

The volume is a joint enterprise, with eight authors participating under the editorship of Mr. A. G. Lowndes, Chairman of the Australian Institute of Political Science. The separate chapters deal with such topics as the history of the company, the structure of the sugar markets, the sugar industry of Australia and Fiji, techniques of sugar milling, sugar refining and marketing, the entrance of the company into various related activities, personnel policy and organization, ownership, and financial record. Appendices present a complete chronological record of the company and various statistical series. The volume is profusely illustrated with maps and with photographs of the company's personnel and activities.

The Colonial Sugar Refining Company was established in 1855, with antecedents going back to 1839. The moving spirit in its establishment was Edward Knox, born and educated in Denmark. For about seventy-five years the company was controlled by the organizer and by his son, E. W. Knox. Both were men with a highly developed sense of responsibility, with traditions of thrift and hard work; both were strongly opposed to what they termed government intrusion in such fields as industrial policy, import policy, and corporate taxation. Both were strongly paternalistic, reflecting in this respect the spirit of the age. In consequence of their policies, women were not employed until 1936, and smoking is still not permitted in office hours. The history of the company is in reality a history of entrepreneurship. It was an entrepreneurship interested not only in sugar but also in banking. Edward Knox was Chairman of the Commercial Banking Company of Sydney.

One gathers from the volume that the policies of the company have greatly

changed over the past twenty years. The appearance of the volume itself may be taken as symptomatic of this change. An increasing amount of attention is being paid to personnel policies, to good management relations, and to management training.

Despite its early narrowly traditional policies, the company did pioneer in many fields. It established central grinding mills, substituted small farms for the plantation system, established sugar experiment stations and applied chemistry to factory processes. Beginning in the middle 1930's, under its present more progressive management, it began to produce building materials, cellulose acetate, plastics, lacquers, and the like. The company has grown rapidly in size and has become much more diverse. It owns a majority interest in Colonial Sugar Refining Chemicals Pty. Ltd. and in Robert Corbett Pty. Ltd., chemical and pharmaceutical companies, and in Australian Blue Asbestos Ltd. Investments include shareholding in Courtalds (Aust.) Ltd. and in a New Zealand construction firm.

The study discusses briefly — too briefly, from the point of view of a foreigner — the introduction and elimination of the Kanaka system in the production of sugar cane in Queensland, and the importation of Indians into Fiji, beginning about 1879 and ceasing in 1916. The Kanakas have been returned to their homelands and the Indians, arriving as indentured servants, are now mainly tenant farmers. There is little discussion of the relations between the Indians and the Fijians, and of the many economic and sociological problems which have arisen between the two races.

Also of interest would have been a fuller discussion of the rise of the trade union movement among sugar workers in Australia and of the changing attitude of the company toward organized labor; one infers from the study that the company's policies progressed from an attitude of outright hostility to one of reluctant acceptance. Incorporated in the chapter on "People and Work in Factories," there is criticism of the system of compulsory arbitration, of the manner in which the basic wage is set, of the need to increase labor productivity and of the need, too, to give more attention to the training of middle management.

One of the most stimulating sections is that treating of the role of corporate capitalism in a mixed economy such as the Australian economy. The Commonwealth maintains an embargo on sugar imports, reserving the whole internal market for Australian raw sugar. The government of the state of Queensland controls the extent of cane acreage and its allocation to individual farmers and purchases raw sugar at fixed prices. The Colonial Sugar Refining Company agrees to refine the sugar and to supply the Australian consumer with sugar at a price agreed upon by the Queensland and the Commonwealth governments. The study reports that the partnership has been a smoothly working one, a partnership between the labor governments of Queensland and twentieth-century corporate capitalism. One would have wished that sugar agricultural policies had been subject to critical analysis, but this topic might have been considered not particularly germane since the volume is a study of a company and not of an industry.

The company also operates in a protected overseas market. The British Commonwealth Sugar Agreement of 1951 permits it to sell under long-term contracts a substantial proportion of its exports of sugar to the United Kingdom

at a negotiated price which is divorced from the world price, and the balance at the world price with benefit of imperial preference. This agreement applies not only to exports of sugar from Australia and Fiji, but to those from the British West Indies, Mauritius, and South Africa.

South Pacific Enterprise is an interesting and valuable account of an important enterprise, of the role of the entrepreneur in the establishment and early development of the company and of the adjustments which the company has had to make to various changes in its economic and political environment. The Colonial Sugar Refining Company is to be congratulated on having sponsored a study of this character.

Benjamin Haggott Beckhart

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Ironworks on the Saugus: The Lynn and Braintree Ventures of the Company of Undertakers of the Ironworks in New England. By E. N. Hartley. Norman, University of Oklahoma Press, 1957. Pp. xvi + 328. $4.50.

In this book, an outgrowth of research for the Saugus Ironworks Restoration, Mr. Hartley has made use of all of the available evidence to relate fully the story of the Braintree and Hammersmith Ironworks in seventeenth-century Massachusetts "against an English and New World background and as part of a total economic, technological, and social complex." The experience of the ironworks was significant not only as a forerunner of "much that was to come later" with the growth of iron and steel in industrial America but also as an indication that industry was "present in America almost surprisingly early and with consequences greater than has ordinarily been appreciated." Thus, Mr. Hartley stresses the influence of the ironworks on the Massachusetts community as well as the ways in which the total environmental conditions shaped the development of the enterprise.

A depression-induced need for self-sufficiency provided the immediate stimulus to the development of the iron industry in Massachusetts. Paradoxically, political good fortune for the Puritans in England, with their growing success in the struggle against the crown, brought economic difficulty for the Puritans in New England when the cessation of migration brought to an end the boom of the 1630's. John Winthrop the Younger, son of the governor of the Massachusetts Bay Colony, undertook in 1641 the difficult tasks of raising capital and securing skilled workmen. Although he lacked previous experience in the iron industry, Winthrop was able to take advantage of his connections with the Puritan business aristocracy in England to raise the necessary capital. The more than twenty investors in the Company of Undertakers of the Iron Works in New England, a private joint-stock company, expected that profits would derive not only from meeting the colonists' need for iron products but also ultimately from exports of iron to England. In line with mercantilistic policy of encouraging economic enterprise regarded as necessary for the welfare of the community, the provincial government extended to the Company grants of land and free access to raw materials, a monopoly of iron manufacture in the colony, tax exemptions, and immunity of regular employees from militia service. But the Massachusetts General Court also

imposed a ceiling price on the Company's products. The author explains how previous English experience in fostering new industries as well as Calvinist doctrine shaped this governmental policy: "Capitalists and entrepreneurs, like all men, still bore traces of the taint inherited from Adam's sin. If it took assurance of special privileges to get the necessary capital investment, let it be forthcoming. Since capitalists were capitalists, however, let the privileges be tightly drawn, the interests of the whole community protected by adequate regulation, especially of the prices which the new infant industry could charge a people much in need of its products."

Like many other promoters, Winthrop was guilty of "underestimating costs and overestimating both the amount and the speed of return on investment." His successor, Richard Leader, who like Winthrop held interests in both metallurgical technology and entrepreneurship, had little better success after 1645 in satisfying English financiers because of the "delay in turning a profit on what had been a slow and painful start of their industrial enterprise." However, neither the division of managerial responsibilities in 1650 between John Gifford as manager of the ironworks at Hammersmith and Braintree and William Aubrey as fiscal and sales agent at Boston, nor the appointment in 1652 of four New England residents as "Commissioners," prevented the financial failure of the Company. After a "plague of lawsuits," efforts by colonial proprietors to operate the ironworks, never completely successful, ended in abandonment of the plants by the 1670's.

The ironworks enterprise was large by contemporary standards: the English Undertakers invested at least £11,500, including £4,500–5,000 of expenditures for plant and equipment. Although the plants supplied moderate quantities of iron of good quality for a market in which demand was strong, "under no one of the various proprietorships were the ironworks really profitable enterprises." Mr. Hartley points to several "complex interacting factors" to account for this phenomenon. English Undertakers failed to develop techniques of supervision and control of their overseas investment and to understand some of the special business problems which resulted from the shortage of labor and currency in the New World. On the other hand, colonial proprietors probably experienced difficulties in securing supplies and skilled labor from England. Mismanagement also seems to have contributed to the failure to make the enterprise profitable. But the basic factor was that the proprietors were squeezed between the government-imposed ceiling price and the importation of English iron. Since the regulations imposed by the Massachusetts General Court protected the local ironworks from domestic competition only, the Hammersmith and Braintree Works had to reduce prices during periods of abundant supply of imported iron. But the enterprise could not increase prices above the ceiling to absorb the higher costs of production in America at times when the supply of the English product was short. "The Undertakers, and those who followed them, all decided in time that they would not or could not continue to advance money or supplies" when "the ironworks could not keep going out of profits."

This brief summary of the main points of *Ironworks on the Saugus* does less than full justice to the careful analysis which Mr. Hartley has made of all phases of the operations of the enterprise. Indeed there is no significant aspect of the experience of the enterprise to which he does not direct atten-

tion. By the detailed analysis of one enterprise and the firms which operated it, the study contributes concretely to our understanding of seventeenth-century business behavior. The only criticism to be noted is that the discussion of early ironmaking in Virginia, related only indirectly to the main theme of the book, might have been more concise. But special praise should be directed to the three chapters on management, technology, and workers, which describe in clear terms the round of life and work at Hammersmith in the 1650's. Impressive throughout is the way in which the author has used archaeological evidence to fill in gaps in the documentary data. A bibliographical note plus footnote citations, the latter on the pages where they belong, make up for the absence of a formal bibliography. Finally, mention should be made of the well-chosen illustrations and the fine quality of typography.

JAMES H. SOLTOW

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° ° °

Music for the Millions: The Kimball Piano and Organ Story. By Van Allen Bradley. New York, Henry Regnery Company, 1957. Pp. 334. $4.00.

A history of a firm which endures for 100 years is a worthy undertaking. The Kimball Piano and Organ Company has accomplished more than simply surviving the hundred years — it has played a dominant role in the development of the industry of which it is a part. It is unfortunate that Van Allen Bradley has not seen fit to try to explain how this came about. Rather, he apparently confined his research largely to collecting "yarns" and anecdotes, and as many names and family backgrounds as could reasonably, or unreasonably, be included in a book of this size. No analysis or adequate description of the decisions and policies of the firm, nor of the behavior of the people who directed it, is even attempted. The author seems content to point out that Kimball became a large and important company, and that the managers must have been very able. However, there is nothing here that would refute an argument, serious or otherwise, that the company has had a run of just plain luck for an amazingly long time. It seems likely that the major purpose of the book is to provide employees of the firm with some general idea about the growth and development of the Kimball company and the names of those who were connected with it.

A study of the Kimball company should be able to provide interesting insights to students of economics, business history, marketing and merchandising, and management in general. This company began as a retail establishment (and remained one, at least in part) and branched out into organ, piano, player piano, phonograph, radio, and even vocational furniture manufacture. Not all of these activities were successful. It would be interesting and important to know something of the essential reasoning that went into these ventures, but almost always we are told that W. W. Kimball, or some one, "decided" to manufacture one product or another, and it simply was done. In a similar fashion, the author reports that the company "abandoned" its vocational furniture operation in 1945 because it was "foreign to the company's

principal experience" (p. 284). In view of the fact that this particular is reported to have "saved the Kimball Company during the depression" (p. 262), the author owes his readers a somewhat more realistic, and reasonable, explanation of the firm's behavior. (It is interesting to note that the casting off of this operation took place at a time when diversification of production was beginning to be regarded in many quarters as an unmixed blessing.) It may be argued that the inadequacy of the company's records and other sources made extremely difficult, or impossible, a serious attempt to examine such decision-making, but since no footnotes or bibliography appear, and there is no mention or description of source material, I think the author is accountable for these weaknesses.

Although the company's volume of employment is occasionally mentioned, no picture emerges concerning the firm's work force, its employment policies or programs, even though the author insists that it was, and may still be, the largest employer in the industry. Even a two-month strike, beginning in 1899, for a wage increase and the nine-hour day is not powerful enough to elicit mention of wages paid or hours worked at Kimball. It is perhaps indicative that the two pages which are largely devoted to the strike equal less than half the space devoted to Mrs. W. W. Kimball and her collection of paintings.

Perhaps most disappointing, and distressing, is the fact that at the very beginning of the book we are informed that "With Singer of sewing machine fame, he [W. W. Kimball] would revolutionize the American householder's buying habits by pioneering installment selling" (p. 2), but no information subsequently appears regarding this program's development, its mechanics, its effects, or its place in the operations of the firm, let alone its "revolutionizing" impact on America. It is bad enough when vital information is consistently excluded from this story, but an important, and grandiose, claim calls for some supporting evidence.

It must be admitted there is a point in the book where we are given a small peek at internal conditions of the firm, though in a rather odd fashion. On page 101, Bradley, for the first and only time, reports some labor and materials cost figures for reed organs, and notes "the accuracy with which the company kept track of costs from its earliest days of manufacture." In the next paragraph he relates that, in view of the impact of the depression of 1893, the factory superintendent "refigured" these costs and "discovered" that one instrument's cost was \$20.87 and not \$22 as originally reported, while another's was \$41.51 and not \$47. Either the plant manager was inflating his units costs in the first place or he was omitting certain costs in the second; in either case, the company's "accuracy," as well as the author's awareness of his own statements, becomes questionable.

Now that a great many anecdotes, family backgrounds, and assorted miscellany concerning the Kimball company have been collected and bound, perhaps the firm will make its records available to researchers who would attempt to increase our knowledge and understanding of the reasons for the growth and development of the enterprise, its processes of decision-making, its industrial relations, and all of the ingredients necessary to its operation. The Kimball company, which has had an important part in the development of

American musical instrument manufacturing, deserves such a study — hopefully, with footnotes and a bibliography.

MILTON J. NADWORNY

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° ° °

History of Accident Insurance in Great Britain. By W. A. Dinsdale. London, Stone and Cox, Ltd., 1955. Pp. 362. 42 s.

It is almost a truism to note that adaptability to changing social and economic conditions is a *sine qua non* for success in any type of business. Nowhere is this more clearly apparent than in the field of accident insurance. Among the influences which have especially necessitated adaptability, according to W. A. Dinsdale, are legal decisions, legislation, and changing economic trends. These have created the need for new types of insurance or revision of those already in existence. In this relatively brief history of accident insurance in Great Britain, the author gives numerous examples of the potent effect of these and lesser influences in the development of a major industry. He emphasizes the increasing complexity of the accident insurance business and demonstrates how closely its growth has paralleled that of the economy as a whole.

For the benefit of those not engaged in the insurance field, Mr. Dinsdale notes that accident insurance embraces that not included under marine, fire, and life insurance. Therefore, what is covered in this volume is much more than what the layman ordinarily understands by accident insurance. In the United States, the types of insurance discussed by the author are usually collectively termed casualty insurance. They include but are not limited to the following:

(a) Personal accident, disease, and sickness.
(b) Fidelity guarantee.
(c) Employers liability.
(d) Engineering.
(e) Public liability (also known as third party).
(f) Motor (or automobile, in American terminology).
(g) Burglary.
(h) Contingency, contract guarantee, credit, glass, hailstorm, license, live stock, and other miscellaneous types of insurance.

Another common classification is the following: insurance of person, interest, liability, and property.

There is little doubt that accident insurance in its various forms has played a vital role in the day-to-day functioning of the economy. While its main role is to provide financial recompense for those who sustain losses through the occurrence of certain specified contingencies, it also has effected a sizable reduction of accidents through the inspection services provided by insurers. Moreover, these insurers have gradually built up a fund of experience which has been used time and again in the wider interests of the community. They have also furnished advice to governmental agencies in various matters of interest to them. The author describes, in considerable detail, the manner in

which accident insurance has been of benefit to the British economy and citizenry.

Trade associations have played an important role in British accident insurance, as they have in all other fields of insurance. In general, insurance trade associations are composed of competitors who find it necessary to cooperate for the protection of their mutual interests. Specifically referring to trade associations in the accident insurance industry, the author notes as follows (p. 294):

> Although the primary object of Insurers is to pool knowledge and experience of technical matters, the regular meetings of insurance executives afford opportunities for the discussion of various matters and the interchange of views, which cannot fail to be of advantage to all concerned. This tends to the establishment of a common practice and code of procedure, to the benefit of the insuring public generally.
>
> The indirect benefits of association include the following: —
>
> (a) There is an ethical influence, for, in the same way as no individual can live to himself, so no Insurer can follow an unwarranted line of conduct without involving himself in criticism.
>
> (b) Although an association may be primarily concerned with certain specific classes of accident insurance business (and the same applies to other types of business), there is an inevitable tendency to discuss any problem of general interest affecting other sections of accident insurance.
>
> (c) An association of Insurers, although it does not guarantee the solvency of its members, is a strong safeguard in this direction, as the weakness of one constituent would naturally reflect upon the whole membership. It is therefore in the interests of all that a sound standard should be maintained, and assistance will be more readily forthcoming where members are united in an association.
>
> (d) Association provides a ready means of dealing with those problems which concern the business as a whole, but in which one Insurer cannot act alone. An illustration is the formation of the Motor Insurers' Bureau.
>
> (e) The individual who attends the meetings of an association acquires knowledge of what other people are thinking and doing, and makes many valuable friendships.

As early as July 18, 1829, there is a record of the Association of Managers of Fire Insurance Offices meeting in Edinburgh to discuss the urgent problem of establishing agreement on rates. This was one of the principal reasons for the formation of early trade associations in Great Britain. Cutthroat competition threatened to make an industry unprofitable for all, especially in periods of depression. Reduction in rates resulting from the severe competition would proceed to a point where not a few companies would be forced out of business and others would be imperiled. Under such circumstances, tariff agreements stabilizing rates would be effected through the instrumentality of trade associations. Often these agreements would be of short duration, since frequently nontariff companies ignored them in their quest for new business. It is to be noted, however, that various of these agreements in the accident insurance field have survived. Under the auspices of the Accident Offices' Association, there are tariffs in existence for motor, public liability

(drivers') and livestock insurance, to mention a few of them. Other principal functions of the trade associations are lobbying, collection, classification, and analysis of statistics useful to their members, standardization of policies, and reinsurance of risks.

In his discussion of state regulation of accident insurance, the author points out that the unsoundness of many companies in the past and their frequent failure resulted in the need for public control. On the whole, this regulation has proved to be desirable from the viewpoint of protecting the public interest and beneficial to the companies in restoring public confidence, which had been badly shaken because of the frequent failures of companies and the activities of unethical and incompetent agents. Of special interest is the workmen's compensation industry which was merged in the national insurance scheme on July 5, 1948, and thus nationalized. It is unfortunate that the author fails to discuss the experience of Great Britain with nationalization in this sector.

Mr. Dinsdale does not discuss the expansion overseas of British accident insurance companies in most countries in the world. This expansion was taking place also in life, marine, and fire insurance. It was a remarkable performance since it took place despite fierce competition from local institutions, national prejudice, and hostile legislation. This expansion can be attributed to the quality of the insurance and the superior methods and resources of British companies.

While the author has a comprehensive discussion of trade associations among the companies and their executives, he seldom refers to agents' organizations. He does not describe either the marketing organization of the companies participating in the British accident insurance field, or the problems, difficulties, and advances in competence and ethics of the agents and brokers. Here is a most interesting and significant story that remains to be narrated. Certainly the need for various types of accident insurance would not have been translated into effective insurance arrangements without the strenuous efforts of competent and conscientious agents, whose organizations were of such material assistance to them.

The volume furnishes a useful guide to the business historian interested in a general summary of developments taking place in the British accident insurance business. This industry has been closely bound up with and has fostered the general economic progress of Great Britain. This work can serve also as an introduction to a field which has great potentialities for expansion not only in Great Britain but also in other industrialized countries.

Harris Proschansky

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° ° °

A History of Industrial Life Assurance. By Dermot Morrah. London, George Allen and Unwin, Ltd., 1955. Pp. 243. 15 s.

Affecting as they have a sizable portion of the population with low incomes, the failings of industrial insurance have loomed large in the public eye. The accomplishments, tremendous as they have been in a field of insurance beset with inherent difficulties, have been accepted as a matter of course by the

generality of Britons. In the wonderland of politics, where, like Alice, political issues can be magically enlarged or diminished with amazing ease, it is too much to expect that the vital institution of industrial insurance will be objectively studied and analyzed. Dermot Morrah attempts to correct the distorted picture that hostile propaganda threatens to implant in the mind of the British public. He describes his book as "an attempt by a layman to explain to other laymen the purposes and processes of industrial assurance, an institution which exercises a far-reaching influence upon the life of the community, and in which for that reason the community, through its political organs of Parliament and administration, has long taken an inquisitive, critical, and entirely proper interest" (p. 7).

The author does not gloss over the malpractices of both companies and agents. Especially disturbing were the frequent failures of smaller and weaker companies in the early period. Mr. Morrah notes, however, that the industry has continually endeavored to correct its mistakes. He does give due emphasis to the benefits flowing from legislation requiring the backward to adhere to the standards established by the most progressive companies. Moreover, even the strongest insurance concerns have been reluctant at times to take steps necessary for the good of the institution as a whole. Regulatory legislation, intelligently framed and effectively implemented, has prodded these companies into taking measures beneficial to all concerned.

In 1864, when British industrial insurance companies were still in the early stages of their development, four main complaints were lodged against them. First, it was noted that many of the existing firms were in a precarious financial state. The average policyholder or prospective client could not be certain that a particular company was or was not able to meet its obligations when the time should come. Secondly, the costs of administration were described as much too high, and the system of house-to-house collection of premiums was blamed for much of the allegedly excessive costs. Thirdly, the growing practice of insuring the lives of younger children was deemed morally hazardous on the ground that it might lead to premature deaths of children at the hands of parents and guardians. Fourthly, there were numerous complaints that poor men, persuaded against their better judgment by unscrupulous agents, were insured for larger amounts than they could afford, leading to nonpayment of premiums and forfeiture of policies with tremendous losses. Insurance of younger children, under suitable safeguards provided by legislation, has been accepted by the public as beneficial and salutary. The allegedly excessive costs of administration, pressure for increase, and high lapse ratio are even today still charged to the institution by hostile critics.

The frequent failures of weak insurers and the depredations of unscrupulous agents plagued the industry for a long time, especially in the second half of the nineteenth century. Many companies became insolvent because of insufficiency of capital, failure to pay attention to the actuarial probabilities underlying this type of insurance, and/or unscrupulous and incompetent management. The insurance misdemeanors of unethical agents, even though they were a definite minority, also helped to build up ill will on the part of the public towards the business. Serious malpractices included twisting of policies and misrepresentation. Especially obnoxious as a twister was the agent who transferred his services to another company. He then would induce

his former clients to drop their policies with his former company and take out new ones with his present company. Needless to say, the policyholder lost heavily in the process. This particular malpractice was deemed so serious by the industrial insurance concerns that they formed the Insurance Life Offices' Association in 1901 to eradicate this insurance evil. The Association succeeded in accomplishing its objective.

Like most living institutions, industrial insurance has been built up by trial and error and through painful but instructive experience. While admitting the existence of insurance evils in former days, it has always deplored the exaggeration of its critics. It has never agreed that house-to-house collection can be eliminated without destroying the basic virtues of the business. The companies have taken various important steps to reduce expenses of administration and have instituted measures to curb lapses. They have attempted to ensure that their agents would be of high character and competence. In this connection, agents' organizations have played a major role in curbing the abuses of their members and in working for their professional advancement.

The role of legislative inquiry and investigation has been a major one in developments affecting this industry. Hostile critics — and they have been many and vociferous — have never ceased directing their verbal shafts at industrial insurance. A long succession of highly publicized public inquiries have placed the institution under continual scrutiny. Legislative measures resulting from these inquiries have set high standards for the industry, although the companies themselves in no small measure have contributed to the elevation of standards.

Advocates of nationalization of industrial insurance in Great Britain (including Sidney Webb) have conducted vigorous campaigns in behalf of their political nostrum. They have continually played up the alleged defects of the industry, especially the excessive administrative expenses and the inordinate amount of lapsation. They have also frequently referred to the vast aggregations of capital controlled by the boards of management of the larger companies and the possible dangers flowing therefrom. The author provides a detailed and closely reasoned analysis of the respective merits and demerits of private enterprise and state operation of industrial insurance. He concludes that the supersession of private enterprise by the state would be most inimical to the best interests of the policyholder, the beneficiaries, the shareholders, and the staffs of the existing industrial insurance companies. He points to the powerful incentive provided by the competitive system to increase the benefits provided by industrial insurance. Moreover, he refers to the considerable difficulties that nationalization would bring in its wake and the probable loss of efficiency that already has been attained by private enterprise. In short, Mr. Morrah sees only net loss resulting from the adoption of nationalization, and deems the supersession of private enterprise by the state as quite detrimental to the British public.

The role of trade associations is so far-reaching in insurance that it is unfortunate that the author gives us such few details of the activities of the Industrial Life Offices' Association. He advises that it helped to stamp out one form of twisting, as mentioned previously, and that it represents the industrial life insurance companies in matters considered by the Industrial Assurance Commission, the regulatory body for the industry. There is little

doubt, however, that the Association performs other vital tasks which are not mentioned in the work under review. Agents' organizations have also played an especially influential role in the business. There is relatively little discussion of their activities and significance.

The author does not adequately relate developments in the field of industrial insurance to those affecting other types of insurance. He rarely refers to the experience of the United States and other countries where industrial insurance has attained a high level of development. A discussion of the experience of other countries would have helped further to illuminate the fundamental issues presented in the volume.

Mr. Morrah seldom annotates his material and does not provide a bibliography. This is rather unfortunate, as the business historian, stimulated as he is by a highly interesting and well-written work, must look elsewhere for a list of the basic works in the field.

Within the relatively short compass of this volume, the author has been successful in giving a succinct summary of developments in industrial insurance in Great Britain. His work can serve as a corrective for the distorted picture painted by hostile critics of the institution. It can be useful as an introduction to a field of insurance, in which a combination of efficient private enterprise and intelligent government regulation have produced continual growth and constant progress.

HARRIS PROSCHANSKY

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Albert Gallatin, Jeffersonian Financier and Diplomat. By Raymond Walters, Jr. New York, The Macmillan Company, 1957. Pp. x + 461. $7.00.

The world of finance has always made its own rules, insisted on its own "mysteries," cultivated secrecy to the point of occultism, and yet inspired such confidence in all ages that financial empires or financial schemes rarely collapse except to the astonishment and awe of outsiders. A command of the rules, a penetration of the mysteries, a disdain for the occult, in turn, have often smoothed the paths of financiers — like Svengalis to political Trilbys — to realms of power higher than the world of finance itself. So it was with Hamilton in his relations with President Washington; and so it was with Albert Gallatin in his relations with presidents Jefferson and Madison. Gallatin "is the only man in the United States," Jefferson wrote on the eve of his inauguration in 1801 respecting his imminent appointment of the Swiss immigrant as Secretary of the Treasury, "who understands, through all the labyrinths that Hamilton involv'd it, the precise state of the Treasury, and the resources of the Country." As Madison's Treasury Secretary, Gallatin was described as "to all intents and purposes the president, and even more than the president of the United States." The rather sinister suggestion of this remark — of financial legerdemain overreaching itself — was carried further by another characterization of Gallatin as "a man of most singular sagacity and penetration; he could read the very thoughts of men in their faces and develop their designs; a man of few words [who] made no promises but to real favorites. . . ."

The orphaned son of distinguished parents in status-ridden Geneva, Gallatin

came to America in 1780 at the age of nineteen to seek his fortune. The fact that there was a revolution going on seemed scarcely to disturb him. Along with his lares and penates he carried commercial goods across the sea with the hope of disposing of them at a profit to enhance the fair amount of cash he also carried. Like many other Americans of the day, he was soon captivated by the possibilities of land speculation, and urbanite though he was he developed a lasting love for the frontier in western Pennsylvania where he settled in 1785. His excellent Genevan education — under Calvin's influence Geneva had developed in the sixteenth century a public school system through college and professional schools which Pennsylvania was not to approach until the middle of the nineteenth century — promptly made him the spokesman for his cruder neighbors who soon sent him to the state legislature in Philadelphia and then to the national Congress. In the United States House of Representatives in the late 1790's Gallatin quickly overshadowed Madison himself as the Democratic-Republican leader in opposition to Federalist finance and virtually shared with Madison and Jefferson the leadership of the opposition party.

Gallatin lived until 1849, and in his later years served the United States most ably — as Dr. Walters dutifully recounts in detail — on many diplomatic missions and also became a bank president in New York City. But his great years were those from 1801 to 1813 during which he was Secretary of the Treasury for a longer term than anyone in history, and a cabinet member for a longer term than anyone besides Harold L. Ickes.

Gallatin was too knowledgable in finance to share Jefferson's and Madison's doctrinaire hatred of the First and Second banks of the United States; too knowledgable in business to share their willingness to open the wide reaches of the West on terms that would attract speculators promptly but defer actual settlement by permanent residents. What made him a bulwark of Jeffersonianism was the detestation he shared with the Virginians of Hamilton's policy concerning the national debt. This to Gallatin — and to many analysts since — was the crux of the country's future. Was it true, as Hamilton insisted, that in order to survive the Union had to hold the favor of the rich by means of public securities that carried high interest rates and would not soon be "extinguished?" Or was it true that rich rentiers were, in Gallatin's words, "idle and dissipated members of the community," whose claims on the Treasury needlessly sucked up through taxation the small amounts of capital that men like his neighbors on the frontier struggled so desperately to accumulate in order to further the actual development of the resources of the country that they had undertaken? .

Of course, much can be said — has, indeed, been said — on both sides. Gallatin, like Jefferson, was sure where the correct answer lay. In a way, he knew it better than his friend and political mentor; for to Jefferson what might be called agrarian finance grew chiefly from a general philosophical position concerning the worth of the individual and the beatitudes of agriculture; to Gallatin agrarian finance grew from a conviction that in a capital-poor country hard labor and rising productivity were surer paths to national wealth and well-being than conservative investment in government securities guaranteed by burdensome taxes on the many for the benefit of the drones.

As Dr. Walters shows, Gallatin held a thoroughly Jacksonian view of the

public debt, equating it, as the future President did, with personal debt, and equating both with mortal sin. He could see no good in it whatsoever — a position surprisingly innocent for one of his financial sophistication, yet one much more defensible at the turn of the nineteenth century than in that century's third or fourth decade when large national capital projects might have been undertaken, or in the complex twentieth century with its garrison and welfare state. On no other subject, however, in finance or politics, was Gallatin such a victim of his Puritanical upbringing. His sophistication, indeed, is what led many members of his own party to mistrust him as a foreign financial wizard. Would that Dr. Walters were capable of some of the distinctions Gallatin himself constantly made.

This volume, as the author points out in an interesting Preface, is the first new study of Gallatin in seventy years; the first of any, really, to make extensive and scholarly use of the fairly elaborate Gallatin papers. But there is little or nothing both new and valuable in the work, either in information or interpretation. Indeed, where interpretation is explicitly undertaken, as in the discussion of the causes of the War of 1812, the analysis is old and questionable if not discredited. Neither Pratt's *Expansionists of 1812* (1925) [toward which Dr. Walters seems to lean] nor Burt's revisionist *The United States, Great Britain, and British North America* (1940), to which Pratt himself concedes much, is mentioned in Dr. Walters' Bibliography. This is but one example among a number that might be mentioned which suggest that Dr. Walters' narrow concentration on Gallatin's surviving documents, rich though they may be, helps explain the narrow focus of his narrative and the weakness of his analysis where analysis occurs. This is a scholarly work in what might be called the second-best sense; perhaps Dr. Walters' feeling, as conveyed in the Preface and elsewhere, that Gallatin himself was second-best in an age of political giants, accounts for his own lack of originality.

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Ekonomi och Religion. By Kurt Samuelsson. Stockholm, KF:s Bokförlag, 1957. Pp. 175. 11 Sw. crowns.

It is more than fifty years since the publication of Max Weber's well-known work on Protestantism in its connection with capitalism. (*Die Protestantische Ethik und der Geist des Kapitalismus*, Jena, 1905.) Weber's theories, as is well known, attempted to demonstrate that the manifestation of the Protestant ethic, in the form of Calvinism and certain other Puritan sects, was a prerequisite condition for modern capitalism. To Weber it seemed clear that, for the Protestant, work was a divine calling and material well-being a proof that one was a member of God's Elect; frugality and industriousness were supreme virtues, which led to the acquisition of wealth as well as happiness; the Protestants, far more than the Catholics, were dedicated to commercial and industrial pursuits and to the principles of progressive entrepreneurship. From these views Weber constructed a sophisticated and ingenious historical theory which has conditioned the approach to questions of religion and capitalism over the last two generations. This is true to such extent that although his conclusions have been criti-

cized from many points of view, in the last resort nearly all Weber's critics have accepted his assumptions as to the significant interrelationship of reformed religion and radical business enterprise. It is almost true to say that a large part of Weber's thesis is still undisputed and that after fifty years it is still widely used as the starting point, not the testing ground, for historical and sociological investigations in this field.

In view of all this it might almost be considered indiscreet for a Swedish social scientist, Kurt Samuelsson, to examine Weber's hypothesis. But the result is worthwhile. He criticizes Weber's method and also his selection of facts. Samuelsson's main lines of attack can be summarized in four points: (1) he shows that capitalism existed before the Reformation. (2) He doubts that Calvinism favored "the capitalistic spirit" to the extent that Weber claimed. (3) Franklin, of whom Weber writes so much, was not a spokesman for Puritanism. He was, rather, a representative of the eighteenth-century rationalism. (4) Weber makes a biased use of statistics and constructs "nonsense-correlations." Samuelsson's conclusion is that "starting either from the doctrine of Puritanism and capitalism or from the basic assumption of a correlation between economics and religion, we can find nothing which in any way verifies Weber's propositions" (p. 165). Weber's theories are here overthrown by an acrimonious and clever debater — but one who always subordinates his polemics to the need to concern himself with the central issues of Weber's thesis and to respect the demand of logic and relevancy. Samuelsson considers the contributions to the discussion which was started at the beginning of the century. He deals, above all, with the well-known works of Sombart, Cunningham, Tawney, and Robertson, but he also appraises the views of more recent writers. Robertson, who inverted Weber's thesis ("The spirit of capitalism is not the creator but the creation of the class of business men") is dealt with in exactly the same way as Weber's protagonists, for Samuelsson seeks to find out *if there is any correlation at all between Protestantism and economic development, no matter in which direction the lines of cause and effect run.*

Is there anything which can justify Weber's statement that Calvinism, through its tolerance of interest taking, through its insistence of frugality and industriousness, and through the doctrine of the "calling" and the concept of predestination, with its compelling incentives to the achievement of worldly perfection, was decisive for the critical developments in capitalism? Samuelsson's categorical answer is "no." He convincingly shows that neither Calvin nor Wesley, Fox nor Penn, Bunyan nor Baxter can be said in their works to have demonstrated any more tolerance than Lutheran or Catholic writers towards the sordid realities of worldly occupations. Puritanism was as harsh in its judgment of capital accumulation and material success as any other branch of Christianity. Samuelsson demonstrates that Weber twisted and pulled the statements of some authors beyond the bounds of accuracy, that he managed to avoid reference to writings not sufficiently malleable to fit in with his theory, that he often quite wrongly describes commentators as typical of a religious persuasion, and that it takes little effort to find in non-Protestant doctrines declarations which would fit equally well, or better, into the Weberian scheme of things.

To take another example, Benjamin Franklin was considered by Weber as a living embodiment of the "spirit of capitalism," as a foremost witness to the power of the purest Puritan ethic. In Samuelsson's view, however, Franklin

epitomized not so much a religious philosophy as that spirit of secular enlightenment which was the eighteenth century's contribution to philosophy. His religion, such as it was, was not Puritan and certainly not Calvinistic. In his *Advice to a Young Tradesman*, for example, Franklin delineates the qualities which he considered most for success in business, and in the process he discusses only materialism and individualism. Nowhere can we find a passage which adduces material activity as a primary service of God. The virtues which Franklin emphasizes are not virtues in themselves but only avenues to attainment of wealth. Samuelsson could have added that the person to whom Franklin addressed his advice was not any prototype of a modern large-scale entrepreneur, but the small tradesman typical of a restricted business environment. Franklin was, as Samuelsson says, a poor representative for the "spirit of Capitalism." His utmost aim was to retire from business and devote his life to science and study.

One of Weber's starting points was a work by a German author, Offenbacher, who imagined he had been able to show considerable differences between Catholics and Protestants in Baden with respect to economic status. His material was drawn from statistical abstracts of the late nineteenth century. Among other things, Protestants sent a larger percentage of their children than did Catholics to high schools and technical institutions. Samuelsson attacks, with crushing criticism, Weber's speculations about this material, and he shows that almost all correlations are, as he says, nonsense-correlations. If one investigates the towns where the schools are situated, one finds that both religious groups are represented in proportion to their distribution in the district; if one investigates the financial statistics one finds that the difference signifies only that the Protestants lived in towns to a greater extent than the Catholics; and if one believes that their place of domicile had any religious significance, then this too is susceptible to rational explanation.

These are only some of the questions with which Samuelsson deals in what is, in spite of its size, a very comprehensive book. It is obvious that several times he only gives a sketchy outline of the problems and that his conclusions on a few points are founded on a somewhat weak line of argument. But such criticism has little relevance to the main point at issue. After a reading of this book, it is almost impossible to avoid his conclusion: "One has no right to isolate, as Weber did, only one element from a lengthy and complicated process . . . and to correlate economic development in the West with this one out of a multitude of factors. . . . But Weber showed no reluctance in doing just this for such a concept as extensive as economic development and for a religious philosophy as greatly diversified as Puritanism, not for a short period, but over the course of some four hundred years, not for a limited geographical area, but for the West as a whole!" (p. 160). These seemingly self-evident facts have had to wait fifty years for their formulation. The book deserves to be translated and to be made available for an international public. Samuelsson's revaluation of Weber's thesis will surely be accepted as definitive and conclusive.

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Anaconda. By Isaac F. Marcosson. New York, Dodd, Mead & Company, 1957. Pp. 370. $5.00.

This volume purports to be an "authoritative" history of The Anaconda Company, and its predecessor organization, from its inception in 1882 through 1955. The author states that he visited all of the company's principal operating sites in North and South America and that he undertook extensive interviews with the chief executives of the company including Cornelius F. Kelley (past president and chairman of the company, now chairman of the executive committee), Robert E. Dwyer (past president, now a director), Roy H. Glover (now chairman and a director) and Clyde E. Weed (now president and a director). It is evident, therefore, that this book was undertaken with the hearty cooperation of the company, including significant financial support (though the latter is never explicitly acknowledged by the author).

The dust jacket indicates that the author, Mr. Marcosson, is a journalist of distinction having been associated with the *Saturday Evening Post* for some thirty-one years, "first as staff contributor and later as chief foreign correspondent." We are told that "in 1945 Mr. Marcosson turned to the writing of industrial histories and has become outstanding in this field." Finally, a flyleaf indicates that Mr. Marcosson is responsible for some twenty full-length publications, many of them ostensibly in the area of "industrial history."

With such an introduction even a professional academician may be encouraged to anticipate a well-organized, interestingly written, lucid and objective account of Anaconda's growth. Such a reader might look forward with pleasure to a reading of *Anaconda*, even though he expected it to be deficient in respect to documentation, quantitative analysis of company operations, careful examination of administrative policies and practices, discussion of industry characteristics, and a general evaluation of the company's role in our society.

Unfortunately, Marcosson's *Anaconda* has absolutely nothing to recommend it either to the casual reader or to the serious student of business or industrial history. It is rambling, repetitious, without the most rudimentary semblance of topical organization, turgid in point of style, and devoid of a single attempt at objective appraisal of company policy or practice. This book probably represents the lowest level of historical endeavor, since it comes with credentials that are apt to delude the unsophisticated and to create lasting revulsion toward business or industrial history on the part of more discriminating but uninitiated readers. That this book should have been written and published through the financial support of The Anaconda Company (as it surely was), seems to me a grave reflection upon the judgment of its management. Such a book, produced under such auspices, strongly suggests the need for an educational campaign to acquaint companies and advertising agencies contemplating industrial histories with the dangers of producing such works as Marcosson's *Anaconda.*

For the serious reader who wishes to know something of the origins of The Anaconda Company, with particular emphasis upon the role of Marcus Daly, H. Minar Shoebotham's *Anaconda* (Harrisburg, Pennsylvania, The Stackpole Company, 1956, pp. 217, $4.50) is recommended — with some reservations (see *Business History Review*, Vol. XXX, pp. 154f). The company's subsequent growth and many of its more important policy decisions are reflected in its annual reports to stockholders, which of recent years have been not only publications of real beauty but highly informative summaries of general activities

and financial results. For an indication of the company's place in the national and international copper and brass industry (and for further sources) refer to: E. B. Alderherfer and H. E. Michl, *Economics of American Industry* (New York, McGraw-Hill Book Company, 1957), 3rd Edition. For a wealth of trivia and some insight into the personalities and contributions of Kelley, Dwyer, Glover, Weed and others, see Marcosson's *Anaconda.*

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